IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY, A MISSOURI CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:

CHADWELL, KAYSER, RUGGLES, McGEE & HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL, GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

MARK T. KEANEY
LEWIS, RICE, TUCKER, ALLEN & CHUB
1400 Railway Exchange Building
611 Olive Street
St. Louis, Missouri 63101
(314) 231-5833

Gunthorp-Warren Printing Company, Chicago • Financial 6-6565

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Texts

Constitution, Statutes and Rules

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

Jane Aronson (formerly known as Jane Leopoldi) hereby petitions that a writ of certiorari be issued to review the judgment and opinion of the United States Court of Appeals for the Eighth Circuit entered December 8, 1977.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Eighth Circuit is reported at 567 F. 2d 757, and is printed in the Appendix at page A1. The Findings of Fact and Conclusions of Law of the United States District Court for the Eastern District of Missouri, Eastern Division, are reported at 425 F. Supp. 600, and printed in the Appendix at page A21. The District Court did not render a separate opinion.

JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit was entered on December 8, 1977. Petitioner's timely filed petition for rehearing was denied January 4, 1978. A copy of the order denying the petition for rehearing is printed in the Appendix at page A19. The jurisdiction of the Court is invoked under 28 U. S. C. § 1254(1).

QUESTION PRESENTED

Does federal patent law pre-empt state contract law and prevent enforcement of an agreement calling for continuing payments upon the manufacture of an article any time the article which is the subject of the agreement ceases to be secret and is not covered by a valid patent?

More specifically, does an agreement by which an inventor discloses a secret and previously unknown article for purposes of having it manufactured, in return for the manufacturer's promise to make payments as long as it sells the article, conflict with the patent law simply because the article is not patentable and the sale of it by the manufacturer makes it known to the public?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8.

The Congress shall have Power . . .

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

Article VI, second paragraph.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Statutes:

35 U. S. C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

STATEMENT OF THE CASE

In June 1956, Petitioner Aronson and her agent, Norbert Leopoldi, went to the offices of Respondent Quick Point Pencil Company in St. Louis, Missouri, and met with Quick Point's president, G. A. Goessling (since deceased). Under an obligation of confidence, they disclosed to Goessling the design of a keyholder which was then not publicly known but which was described in a patent application which had been filed by Aronson on October 25, 1955 (App. A43). At the close of the negotiating session, Goessling set forth a proposed license agreement in a letter to Aronson, dated June 26, 1956 (App. A24). The letter provided that Quick Point "will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677", that Quick Point would "start manufacturing within 60 days after you indicate your acceptance of the following terms" and that "the royalty rate will be five percent of our selling price . . . on all keyholders which we make in accordance with the design shown in your application" (App. A30).

Upon receipt of the letter, Aronson, through Leopoldi, telephoned Goessling and an addendum to Goessling's proposal was prepared and signed and became a part of the agreement (App. A24). That addendum provided that "In the event that the Keyholder Patent Application Number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane

[Aronson] two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same" (App. A32).

In July, 1956, Quick Point began manufacturing the keyholders (App. A25), and continues to manufacture them today (App. A28).

Patent application No. 542677 was finally rejected by the Patent Office Board of Appeals on September 27, 1961, and was thereafter abandoned (App. A27). Even though Quick Point knew of the rejection and abandonment of the patent application, it continued to pay royalties (App. A26).

In 1961, while the patent application was still pending, a dispute arose between the parties concerning whether Leopoldi was prevented by the Aronson-Quick Point agreement from licensing another keyholder covered by another patent application to someone other than Quick Point (App. A44). In connection with that dispute, Quick Point's patent lawyer wrote a letter to Aronson:

> "We remind you that your license agreement is in respect of the disclosure of said Jane [Aronson] application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane [Aronson] application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. A38).

The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and, in fact, by the late 1960's, others had copied it and were selling similar keyholders in competition with Quick Point (App. A27).

Quick Point paid Aronson five percent of its sales until June 26, 1961. On that date, five years after the date of the agreement, the payments were reduced to two and one-half percent, in accordance with the contract (App. A25), and Quick Point continued to pay Aronson two and one-half percent of its sales until October 1, 1975 (App. A26).

On November 18, 1975, Quick Point brought this action for a declaratory judgment that it has no further liability to make payments under its agreement with Aronson. Jurisdiction of the district court was based upon diversity of citizenship, 28 U. S. C. § 1332. The complaint alleged that the license agreement between Quick Point and Aronson was unenforceable because it conflicted with Article I, Section 8, Clause 8 of the United States Constitution by providing for royalty payments on an unpatented and unpatentable article. The complaint also alleged that the agreement was void, invalid and unenforceable as a restraint of trade and indefinite, uncertain and ambiguous with respect to its terms.

The matter was decided by the district court on a record consisting of a stipulation of the parties and affidavits in support of cross-motions for summary judgment. The district court concluded that the contract is valid and enforceable and obligates Quick Point to continue paying the agreed amounts so long as Quick Point continues to make and sell the keyholder which is the subject of the contract.

Quick Point appealed to the United States Court of Appeals for the Eighth Circuit. In a two-to-one decision, the court reversed the district court and held that the principles embodied in federal patent law preclude Quick Point's being bound by the contract's royalty provisions because Aronson abandoned the patent application and no patent was ever obtained on the article (App. A8-A9). Senior District Judge Larson, sitting by designation, argued in dissent that the case should be governed solely by state contract law, that the mere existence of a patent application could not require, as a matter of federal policy, that the royalty obligation cease once the patent application was abandoned, and that the majority decision irreconcilably conflicted with *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960).

REASONS FOR GRANTING THE WRIT

I. The Decision Below by a Sharply-Divided Court Decides an Important Question of Federal Pre-Emption of State Law Which Should Be But Has Not Been Decided by This Court.

The effect of the decision of the majority below is that a contract calling for the payment of royalties upon the manufacture of an article (or the use of a process or any other form of idea or invention) is valid and binding upon the manufacturer only (a) if there is an existing patent, or (b) so long as the article remains a secret. Under the decision of the majority below, at any time that the article becomes known to others and there is no patent which would entitle its inventor to exclude others from making, using or selling it, the manufacturer under a contract—no matter how explicit its language to the contrary may be—is free to make the article without payment of the contracted-for royalties.

The decision thus places in doubt a large number of contracts. It renders unenforceable every trade secret license where the trade secret later becomes known to the trade for whatever reason.* It also would render unenforceable every agreement by which a previously undisclosed idea or article which is not patentable or protectable by copyright is licensed under continuing royalties. For example, before the decision below the person who conceived a format or concept for a television series, or a motion picture, or an advertising campaign, could sell that idea in return for continuing payments based upon its use. However, under this decision, all contracts concerning such matters are unenforceable because those ideas can neither be patented nor copyrighted, and became fully known to the public upon first use. Similarly, one who takes any other type of business opportunity or idea to another and obtains an agreement for a "finder's fee" in the form of a percentage of the sales derived from it will be foreclosed from doing so because a business idea cannot be patented and necessarily becomes public upon its first use.

* Parties contracting with respect to a trade secret cannot know how long it will remain secret. For example, it may be independently conceived or invented by others. It may be learned through reverse engineering, *i.e.,* working back from a product which was on sale. Or it may be disclosed by reason of a breach of confidence. In any event, under the decision below, once it is disclosed to the public the obligation to pay royalties ceases no matter whether the parties in their negotiations had agreed upon a longer period for payment of royalties and had calculated the royalty rate based upon that length of time.

The decision below would also require a holding that an obligation to pay royalties during the pendency of a patent application is not enforceable if the manufacture and sale of the article by the licensee makes the subject matter of the patent application known to the public. In *Lear, Inc.* v. *Adkins,* 395 U. S. 653, 674 (1969), this Court pointed out that the question of the enforceability of a royalty obligation *prior* to the issuance of the patent in that case "squarely raise[d] the question whether, and to what extent, the States may protect the owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." Although recognizing that an "important question of federal law" was presented, the Court expressly declined to rule on that question at that time (*Id.* at 675).* The majority below has done so and has ruled that such a contract is unenforceable.

The decision below not only seriously impairs the ability of inventors and manufacturers to contract in the future, but also renders unenforceable countless contracts already in effect and

* Mr. Justice White, in his partial concurrence, felt the Court had no reason to raise or consider this question. However, he noted that the Court's decision was apparently based on the assumption that pre-issuance and post-issuance royalties do not stand on the same footing under federal law. Justice White said that such a distinction might be valid and pre-issuance royalties therefore recoverable. However, he questioned an inflexible rule on post-issuance royalties, at least to the extent they represent payment for disclosure of the inventor's idea to the licensee while the patent application is pending. To that extent, he indicated, such royalty payments seem indistinguishable from pre-issuance royalties, at least for purposes of federal patent law. 395 U.S. at 682 n.2.

creates potential rights in numerous licensees to sue for refund of previously paid royalties. As noted in Section III *infra*, the decision below thus acts to prevent the normal operation of state contract law to provide economic incentive to small innovators, and is contrary to the spirit of this Court's decision in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974) which permitted both state and federal law to operate concurrently to protect and encourage invention. The important question raised by this case has not been but should now be decided by this Court.

II. The Decision Below Conflicts with a Prior Decision of the Court of Appeals for the Second Circuit.

As pointed out by the dissent, the case of *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc., supra*, which reached a contrary result, is indistinguishable from the case at bar. In that case, Warner-Lambert agreed to make payments to the discoverer of the formula for Listerine so long as it continued to manufacture the product. The formula eventually became public, and after making payment for many years under the agreement, Warner-Lambert brought suit seeking release from the contract. The court concluded that the contract was enforceable, rejecting essentially the same argument accepted here by the Eighth Circuit. See 178 F. Supp. at 663-65.

The supposed vice which the majority found in the agreement in question here was equally present in the *Listerine* agreement. The majority below found that Quick Point's contractual obligation to pay Aronson royalties on the manufacture of the article in question, even though Aronson obtained no patent on the article and has no ability to foreclose others from manufacturing it, was contrary to the public policy embodied in the federal patent law. After stating that "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent," the majority below misread *Lear, Inc.* v. *Adkins, supra*,

and concluded that: "[W]e believe, as the Supreme Court did, that 'enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain' " (App. A6).

The secret involved in the *Listerine* case, *i.e.*, the formula for Listerine, had gone into general circulation after the contract was made, just as the design for Aronson's keyholder later went into general circulation. If requiring Quick Point to pay royalties prevents the full and free use of ideas in the public domain, so, too, did the requirement that Warner-Lambert continue paying royalties. Indeed, the effect on the use of ideas which are available to everyone in the public is absolutely no different in one case from the other. Perhaps if a patent had issued in this case, the circumstances here could be distinguished from *Warner-Lambert* because Aronson would then have been the beneficiary of the monopoly granted by the patent statute. But since no patent was ever issued here, Aronson has been in no better position than the inventor of Listerine whom the Second Circuit held could continue to receive royalties.

The effect of the opinion below is that there is now a direct conflict between the Eighth and Second Circuits on the question of whether a contract for continued royalties is enforceable once the subject matter of what was originally a confidential disclosure becomes public knowledge and is not protected by a patent.

The decision of the majority below is also in conflict with scholarly legal writing on the subject and with other lower court decisions. One leading commentator who has written extensively in the field of trade secrets has pointed out that:

> "Since a trade secret owner cannot offer protection to his licensees against independent developers, it follows that the consideration for a trade secret license is disclosure of the trade secret, not the right to continued enjoyment as in the case of a patent license. Your author has long been of the view that if the trade secret licensee cannot, in the license negotiations, bargain for royalty reduction or

> abatement upon the secret's becoming generally known or simply used by a few competitors, his continued use should bear royalty. That view has now been fully and articulately developed, in a manner showing the result encourages competition *and* respects contract obligations." 2 Milgrim, Trade Secrets, Section 6.05[2][d] at p. 6-144-45 (1977) (emphasis in the original).

See also, McCarthy, *"Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear* v. *Adkins,* 45 Geo. Wash. L. Rev. 429, 472-75 (1977); Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 30-34 (1971).

This view has been recognized and accepted in cases decided since *Lear.* Thus, in *Sinclair* v. *Aquarius Electronics, Inc.,* 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974), the court held that the licensor of a trade secret was entitled to continue to collect royalties even though the secret was later publicly disclosed and no patent covered the subject of the secret. The court specifically rejected the claim that the royalty agreement was repugnant to the federal patent law. Similarly in *Shepard* v. *Commissioner,* 57 T. C. 600, 613-14 (1972), the Tax Court, citing *Warner-Lambert,* recognized that a royalty agreement transferring trade secrets or technology, apart from patents, may be enforceable against the licensee so long as he manufacturers the article, even when the subject of the agreement becomes public knowledge. See also *Wrigley* v. *Compudyne Corp.,* 390 F. Supp. 478 (E. D. Pa. 1975); (*Lear* held inapplicable to suit for royalties on license agreement involving rejected patent application); and *Heltra, Inc.* v. *Richen-Gemco, Inc.,* 395 F. Supp. 346 (D. S. C. 1975), *rev'd on other grounds,* 540 F. 2d 1235 (4th Cir. 1976). In addition to resolving the conflict in the federal circuits, the Court's decision would resolve conflicts arising in state courts. *Compare Sinclair* v. *Aquarius Electronics, Inc., supra, with Pollack* v. *Angelus Block Co.,* 171 U. S. P. Q. 182 (Cal. Super. Ct. Jan. 7, 1971) and *Choisser Research Corp.* v. *Electronic Vision Corp.,* 173 U. S. P. Q. 234 (Cal. Super. Ct. Feb. 28, 1972).

Granting the writ and deciding this case will not only resolve the conflicts that already exist but prevent the inevitable inconsistent results in future cases.

III. The Decision Below Rests Upon an Erroneous Interpretation of Federal Pre-emption Policy Embodied in the Federal Patent Law.

This Court had occasion in *Kewanee Oil Co.* v. *Bicron Corp., supra,* to consider in detail the constitutional underpinning and policy embodied in the federal patent law. The decision below is based upon an erroneous interpretation of that policy and is in direct conflict with the policy announced in *Kewanee.*

In *Kewanee,* it was pointed out that the "stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts'." 416 U. S. at 480. Thus, the purpose of the patent law is to encourage invention. It does so first by granting a 17-year right to exclude others from using the patented invention, and, secondly, by requiring full disclosure of the invention so that any person skilled in the art may use the invention after the expiration of the 17-year term of the patent. As noted in *Kewanee,* this "disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art." 416 U. S. at 481.

Enforcement of the state-created rights in the contract involved in this case will not discourage invention or in any way conflict with the purposes of the federal patent law outlined in *Kewanee.* In fact, the contrary is true; it is the decision below that will discourage invention. If permitted to stand, it will discourage innovation by those who would otherwise spend time and money to develop new articles or designs in the expectation that they can enter into contracts with manufacturers to pay royalties for the use of the development irrespective of whether it is patentable. The only alternative such in-

ventors now have under the majority decision, if their invention is not patentable, is to attempt to negotiate a large lump sum payment at the beginning. But few manufacturers are willing to make such lump sum payments since they do not know what the success of the product will be. Fewer inventors will find profitable arrangements by which they can reap benefits from their inventions and they will be discouraged from investing the time, effort and money necessary to make those discoveries. Such an effect of discouraging innovators is directly contrary to the federal policy of encouraging invention which this Court re-emphasized in *Kewanee*.

By the same token, the decision below will result in fewer disclosures of inventions to the public. The agreement in this case resulted in the design of the keyholder becoming known not only to Quick Point but also to Quick Point's competitors who saw and copied the design (App. A27). That design not only became available to the public but it may very well have contributed to the design of other keyholders, which, while not identical, were suggested by or invented as a result of the success of the keyholder licensed by Aronson.

This Court said in *Kewanee* that "[w]hen a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure. . . ." 416 U. S. at 481. If the framers of the patent law felt that public disclosure was worth that high price, the encouragement of disclosure by agreements of the type involved here is certainly worth the relatively modest price of requiring the single manufacturer who had the benefit of first disclosure to live up to his contract to pay royalties.

The majority below failed to apply the *Kewanee* test of federal pre-emption or even to consider the policy of the patent law enunciated by this Court in that case. Instead, the opinion below

rests upon a misreading of prior decisions of this Court, including *Lear, Inc.* v. *Adkins, supra, Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964). Even assuming those earlier decisions apply in this situation, they in no way require the result reached below.

The majority below said: "We begin with the principle that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent", citing *Lear, Sears* and *Compco* (App. A4). But those cases did not hold that valid contracts cannot be entered into relating to ideas which subsequently become in general circulation. If read to mean that such contracts are invalid, the statement is simply too broad and amounts to a reversion to the discredited doctrine (based upon the *dictum* of Mr. Justice Black in his opinions in *Sears* and *Compco* and his partial dissent in *Lear*, 395 U. S. at 677) that the patent law is exclusive which was subsequently rejected by this Court in *Kewanee*. Indeed, if such were the holding of *Lear, Sears* and *Compco*, this Court certainly would not have said in *Lear* that it was expressly *not* deciding the question of the validity of a contract for the payment of royalties for disclosure prior to the issuance of a patent.

After quoting from *Sears* that "[t]o allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public", the majority concluded: "We believe this principle applies to a state's contract law as well as to state unfair competition laws, *at least when a patent application is involved*" (App. A5; emphasis in the original). But enforcement of the obligation to pay royalties here would not "block off from the public" anything involved in this case. Any member of the public who is not a party to this contract may copy the article and make it without

any obligation whatsoever. Even Quick Point is not prohibited from making the article; it is merely required to adhere to its agreement to pay a royalty if it does so. In both *Sears* and *Compco,* where no contract was involved, a contrary decision would have permitted the inventor to exclude all members of the public from manufacturing the item in question. Similarly, in *Lear* a contrary result would have meant that the person particularly suited to challenge the validity of a patent would be foreclosed from doing so, thus creating the greater likelihood that an inventor could foreclose all of the public from making, using or selling the subject of his patent. The sole question here is not whether state law—be it contract or otherwise—can be used to prevent the copying of an unpatented article. It is whether the states can validly require a party to live up to his agreement to pay another compensation for the manufacture of an unpatented article which was secret at the time of disclosure.

The policy underlying *Lear* does not require that the contract involved here be declared unenforceable. That policy is that it is contrary to the public interest to have invalid patents go unchallenged. Since a patent licensee is perhaps uniquely qualified and motivated to challenge the validity of a patent, state contract law preventing him from challenging the validity of the licensed patent directly conflicts with the federal policy of encouraging such challenges. But that policy has no application to this case because here there is no patent to be declared invalid.

The majority below recognized that no patent is involved but placed controlling reliance upon the fact that a "patent application is involved" (App. A5). But a patent application is not a patent. It takes nothing from the public and gives the inventor no monopoly or right to exclude others from the use of his invention. In addition, patent applications are maintained in secrecy, 35 U. S. C. § 122. Thus the mere existence of a secret patent application does not bring into issue federal patent pre-emption and certainly does not justify the drastic step of striking down state contract law.

In addition, the majority misconstrued the relationship between the patent application and the contract here. The Quick Point license was not a license of Aronson's patent application, but existed separate and apart from it. In the original agreement Quick Point stated it would have "the exclusive right to make and sell keyholders of the type *shown* in your application. . . ." and would pay royalties "on all keyholders which we make in accordance with the design *shown* in your application. . . ." (App. A30; Emphasis added.) As Quick Point's own patent attorney recognized in his April 10, 1961 letter, the license agreement was:

> ". . . in respect of the *disclosure* of . . . [the] application (*not* merely in respect of its claims) and that *even if no patent is ever granted* . . . Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. A38; Emphasis added.)

The only relevance the patent application had to the original disclosure and agreement was as a vehicle to describe the article licensed for Quick Point and to identify it for purposes of the contract. This could have as easily been accomplished by some other means and that fact alone should not be the deciding factor in this case.

There is no doubt that Quick Point and Aronson hoped that a patent would issue and intended that Aronson should prosecute the application. However, the parties recognized that no patent might issue and provided for that event in the addendum by reducing the royalties after a reasonable time if no patent issued. In any event, Quick Point clearly expressed its desire to have the article disclosed to it and wanted to manufacture it irrespective of whether a patent ever issued or not. It was willing to pay a 5% royalty during the pendency of the application and thereafter if a patent should issue, but Quick Point also was willing, in return for the disclosure and the head start it gave Quick Point over the rest of the industry, to pay a 2½% royalty for as long as it sold the keyholder even if no patent issued.

If the law were that the only basis for collecting royalties or a commission from the sale of an article is the existence of a granted patent, then the decision below might be justified. But that is clearly *not* the law. This Court held in *Kewanee* that federal patent law has not pre-empted all state law relating to discoveries; instead, the only limitation on state law is that it not be in conflict with the operation of federal law (416 U. S. at 479-80). In this case there is no such conflict.

Brulotte v. *Thys Co.*, 379 U. S. 29 (1964), also cited by the court below, similarly does not support this decision but in fact compels a contrary result. In *Brulotte* this Court held that an agreement by which a patentee extracted a royalty for the use of his patents after the expiration of those patents was unlawful *per se*. But the Court was very careful to distinguish situations in which no patent is involved. It said, for example, that the case before it was not "like the hypothetical ones put to us where non-patented articles are marketed at prices based on use" (379 U. S. at 31). It also pointed out:

> "The sale or lease of *unpatented* machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question." (379 U. S. at 32; Emphasis in the original).

A contract by which a manufacturer obligates itself to pay for the use of an unpatented *idea* is no different from a contract by which a purchaser of an unpatented *machine* obligates itself to pay for the use of that machine. The effect on the patent system is nil.

Thus, the mere fact that the payment of royalties under the contract means that the licensee will make less profit does not render the obligation contrary to federal policy encouraging innovation. Indeed, there are innumerable examples of situations in which businesses becomes obligated to pay a royalty, commission, or other fee to another either for a fixed or indefinite period of time. For example, a salesman or manufacturers' rep-

resentative may secure a particular account for a business and in return receive a commission on the sales of that account so long as the business makes any such sales, even though he thereafter performs no service. Similarly, Quick Point and Aronson could have structured the agreement as a joint venture in which Aronson contributed her theretofore secret design (or the capital to develop it) and Quick Point agreed to manufacture and market the product, with Aronson to receive 5% of the sales for 5 years and 2½% thereafter so long as the joint venture continued to manufacture and sell the product. No one would suggest that such contracts were illegal or unenforceable and yet their effect is no different from that involved in this case.

The error of the court below results from a failure to understand the rationale behind cases such as *Brulotte* v. *Thys*, and other cases which have struck down contractual or other devices by which a patentee sought to expand the monopoly granted him by the patent. At the foundation of those cases is the fact that the patent grant gives the inventor something he could not otherwise get, *i.e.*, the right to exclude others during the term of the patent, and in return the public is entitled to expect that he will not misuse the patent nor attempt to expand the monopoly so granted. Accordingly, it may be quite appropriate, as a matter of policy, for a patentee to be required to forego his right to obtain royalties for a period longer than 17 years in return for the exclusivity which the patent gives him (or his licensee) during those 17 years at the expense of the public. On the other hand, where no patent is granted, neither the inventor nor his licensee has exclusivity and neither may resort to the courts to obtain it. Thus, the inventor has taken nothing from the public which possibly justifies taking from him the rights the state says he has under normal contract law.

There is no doubt Quick Point knowingly bargained to pay royalties even if no patent issued. Its patent lawyer specifically said so five years after the agreement was signed (App. A38), and its president, who negotiated the contract, repeatedly

reconfirmed that obligation prior to his death and long after it was known that in fact no patent would issue (App. A30, A40, A41). Having taken the benefits of the head start which the disclosure gave Quick Point, requiring its present management to live up to the agreement does not in any way conflict with the federal policy of encouraging invention.

CONCLUSION

For the foregoing reasons, a writ of certiorari should issue to review the judgment and opinion of the Eighth Circuit.

Respectfully submitted,

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:

CHADWELL, KAYSER, RUGGLES, McGEE & HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL, GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

MARK T. KEANEY
LEWIS, RICE, TUCKER, ALLEN & CHUB
1400 Railway Exchange Building
611 Olive Street
St. Louis, Missouri 63101
(314) 231-5833

TABLE OF CONTENTS

APPENDIX.

UNITED STATES COURT OF APPEALS
For the Eighth Circuit

No. 77-1142

QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Appellant,* *vs.* JANE ARONSON (formerly known as Jane Leopoldi). *Appellee.*	Appeal from the United States District Court for the Eastern District of Missouri

Submitted: October 14, 1977
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Before LAY and ROSS, *Circuit Judges,* and LARSON, *Senior United States District Judge.**

ROSS, *Circuit Judge.*

Quick Point Pencil Company, a Missouri corporation, brought this action for declaratory judgment, naming Jane Aronson, an Illinois resident, as defendant. The amount in controversy exceeded the statutory $10,000 and the district

* The Honorable Earl R. Larson, Senior United States District Judge for the District of Minnesota, sitting by designation.

court had jurisdiction pursuant to 28 U.S.C. § 1332.[1] As the basis for the action, Quick Point alleged a contract between the parties negotiated in June and July of 1956, wherein Aronson granted Quick Point an exclusive license to manufacture and sell a keyholder for which Aronson (formerly Jane Leopoldi) had submitted a patent application, Serial No. 542,677, on October 25, 1955. In exchange for the exclusive license Quick Point promised to pay Aronson a five percent royalty, to be reduced to two and one-half percent if no patent were granted within five years. Quick Point agreed to pay these royalties for as long as it continued to manufacture and sell the keyholders. Aronson never obtained a patent on the keyholder but Quick Point paid royalties under the agreement until October of 1975,[2] for a total of $203,963.84.

In its complaint Quick Point alleged that the license agreement, providing for royalties on an unpatented and unpatentable article for an indefinite duration, conflicted with article I, section 8, clause 8 of the United States Constitution,[3] and

1. 28 U. S. C. § 1332(a)(1) provides:

> (a) the district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $10,000, exclusive of interest and costs, and is between—
>
> (1) citizens of different States;
>
> * * * * *

2. Quick Point Pencil Company continues to make and sell the keyholders but is no longer making royalty payments under the agreement.

3. The United States Constitution provides:

> [The Congress shall have Power]
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
>
> * * * * *

U. S. Const. art. I, § 8, cl. 8.

the Supermacy Clause.[4] It sought declarations that the agreement was unenforceable and that it had no further liability to make royalty payments under the license. After the parties filed a joint stipulation of uncontested facts and cross-motions for summary judgment, the district court took the case under submission without trial.

On December 29, 1976, the district court ordered, adjudged and decreed that the contract is valid and enforceable and Quick Point has the continuing liability to make royalty payments for as long as it manufactures the keyholders. He concluded that "[t]he language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted." *Quick Point Pencil Co.* v. *Aronson*, No. 75-1056C(1) (E.D. Mo., filed Dec. 29, 1976). He determined that this case is not controlled by *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); nor *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969). Quick Point appeals from that judgment.

Quick Point contends that the district court erred in holding that this case is governed solely by contract law without regard for federal patent and antitrust considerations. It argues that the principles set forth in *Lear, Inc.* v. *Adkins*, *supra*, should be controlling here. Aronson contends that the contract contains an unequivocal promise to pay a royalty which is independent of the existence of a patent and enforceable as long as Quick Point continues to manufacture the keyholder.

The issue we must decide is whether Quick Point, a patent application licensee, is bound by the contractual provision

4. The Supremacy Clause provides:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, and any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

U. S. Const. art. VI, cl. 2.

requiring it to pay royalties for as long as it manufactures the item described in the patent application even though the licensor abandoned the application many years ago and the licensee's competitors are freely manufacturing the unpatented item.[5] We believe it is not so bound and reverse the district court's judgment.

The issue involves the relationship between state contract law and federal patent law. Although the Supreme Court has not decided the precise question, it has dealt with the conflict in similar contexts and has established principles that can be applied here.

We begin with the principle that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. *See Lear, Inc.* v. *Adkins, supra,* 395 U.S. at 656; *Sears, Roebuck & Co.*

5. The dissent describes the contract as a "trade-secret licensing agreement." We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an "invention," it was a relatively simple device and once marketed, it was completely disclosed. *See* RESTATEMENT OF TORTS § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be his secret.")

The dissent agrees that the parties "intended that Aronson would in good faith attempt to patent the keyholder." The language from Milgrim's law review article quoted by the dissent further supports our conclusion that patent principles apply in this case. Milgrim states:

> * * * the license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.

Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N. Y. U. L. REV. 17, 30 (1971). Quick Point contracted for "the exclusive right to make and sell keyholders of the type shown in [Aronson's] application * * *." The agreement was not for disclosure but for the exclusive right to manufacture an invention that was to be patented.

v. *Stiffel Co. supra,* 376 U.S. at 232-33; *Compco Corp.* v. *Day-Brite Lighting, Inc. supra,* 376 U.S. at 238. In *Sears* the Court made the following statement concerning the relationship between state laws on unfair competition and the federal patent laws:

> To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions, see 35 U.S.C. §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards.

376 U. S. at 231-32.

We believe this principle applies to a state's contract law as well as to state unfair competition laws, *at least when a patent application is involved.* Further support for this belief is found in *Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 677 (Black, J., joined by Warren, C.J., and Douglas, J., concurring in part and dissenting in part):

> The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.

In *Lear* a patent licensee attempted to defend a suit for royalties by challenging the validity of the underlying patent. The situation was similar to the one involved here. While the patent application was pending the inventor and the manufacturer contracted for an exclusive license-royalty arrangement. Before the patent was allowed the manufacturer discontinued the royalty payments because it believed that the improvements were not sufficiently novel and that the inventor would never

be able to obtain a patent.[6] The patent office did grant a patent and the inventor sued for royalties. The Supreme Court of California refused to allow the manufacturer's patent invalidity defense holding that it was estopped by the contract to make that challenge. Finding that such a rule would significantly frustrate overriding federal policies, the United States Supreme Court reversed.

Under the rule announced in *Lear,* if Aronson had obtained a patent which was later determined to be invalid, Quick Point's liability would have terminated.[7] In fact Quick Point could have challenged the validity of the patent and suspended payment of royalties while making the challenge. *See Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 674.

Although Aronson's position is different than the inventor's in *Lear* because no patent was granted here, we believe, as the Supreme Court did, that "enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id.* at 674.

Two other Supreme Court decisions lend support to our conclusion. In *Brulotte* v. *Thys Co.,* 379 U. S. 29 (1964), the Court held: "[A] patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se." Id.* at 32. So if Aronson had obtained the patent for which she applied, after 17 years the contract with Quick Point would have been invalid and Quick Point's liability for royalties terminated.

6. Unlike the contract involved here the parties had agreed that if no patent were issued or if a patent were later declared invalid, the manufacturer had the right to terminate the license.

7. The precise point at which a licensee's liability for royalties may terminate under the rule announced in *Lear, Inc.* v. *Adkins,* 395 U. S. 653 (1968), is a matter of some dispute. In *Lear,* the date of the patent's issuance was the decisive date, but Lear had challenged the patent before it issued. Here Quick Point sought a decree that it had no *further* liability for royalties, so the date of Quick Point's challenge becomes the crucial date.

In *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974), the Supreme Court faced another situation involving a conflict between state trade secret law and federal patent policies. In holding that state trade secret laws may protect unpatented but clearly patentable inventions without conflicting with the patent law policy of disclosure, the Supreme Court stated:

> The possibility that an inventor who believes his invention meets the standards of patentability will sit back, rely on trade secret law, and after one year of use forfeit any right to patent protection, 35 U.S.C. § 102(b), is remote indeed.

Id. at 490.

Not only did Aronson not rely on trade secret protection, it is doubtful that her keyholder would have been entitled to any such protection. The Court stated:

> A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.

Id. at 476 (footnote omitted).

Any member of the general public could have inspected Aronson's keyholder in an attempt to determine how to manufacture it.[8] *See Sears, Roebuck & Co.* v. *Stiffel Co., supra,* 376 U.S. at 231-32. Aronson did not take this chance. She applied for a patent, contracted with regard to that patent application,[9]

8. That, in fact, is what has happened here. The parties stipulated, and the district court found, that in the late 1960's Quick Point's competitors began making keyholders similar to the one in question and since no patent was ever granted they continue to make these similar keyholders without paying royalties. No state law could prohibit this copying. *See Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U. S. 225, 231-32 (1964).

9. Jane Aronson contends that the contract provision reducing the royalties if no patent issued within five years indicates that patent

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and cannot now argue that patent law principles are irrelevant to this case.[10]

Aronson believed her invention was patentable and she submitted a patent application. Had a patent issued she would have had 17 years of exclusive rights to her invention before it became part of the public domain. She approached Quick Point with her idea and the parties entered into a contract anticipating that a patent would issue. If that had happened, under *Brulotte v. Thys Co., supra,* 379 U.S. at 32, Quick Point's liability for royalties would have ended after 17 years *in spite of the contract.* Furthermore, if a patent had issued and Quick Point had later questioned the patentability of the keyholder, under *Lear, Inc. v. Adkins, supra,* 395 U.S. at 674, it could have stopped making royalty payments and challenged the patent in court. If such a challenge were successful, Quick Point's liability for payments would have ended *in spite of the contract.*[11] We do not believe the result should be different here. The principles discussed above strongly indicate that any other conclusion would violate public policy.

We conclude that Quick Point, who contracted for an exclusive license to manufacture and sell an item for which the licensor had submitted a patent application, is not bound by a

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law was not considered by the parties nor applicable here. Quick Point suggests that that provision does not indicate that it anticipated that if no patent was issued within five years none would ever issue, but that it provides for the possibility that the patent would issue at a date more than five years after the contract was signed. We need not speculate as to what agreement the parties might have reached had no patent application been involved—one was.

10. In her brief Aronson argues that the pending patent application was *relevant* because it contained a disclosure that was maintained in secrecy by the United States Patent Office and thus was not available to the general public. On the other hand she contends that the agreement was *independent* of the existence of a patent.

11. Although the parties here did not expressly condition their agreement on the issuance of a patent, under the facts of this case and in view of our decision, we believe the result would be the same as in *Lear, Inc. v. Adkins, supra.*

provision for prolonged royalty payments since the licensor abandoned the application[12] and no patent was ever obtained.[13]

The judgment of the district court is reversed and the case remanded for disposition consistent with this opinion.

LARSON, *Senior District Judge,* Dissenting.

I respectfully dissent.

The majority appears to acknowledge that the contract here was not conditioned on the issuance of a patent.[1] Yet it attributes considerable importance to the fact that a patent application was "involved" and appears to hold that a private agreement which "involves" an abandoned patent application may not be enforced as a matter of federal policy.[2] Because that holding appears to be based on a characterization of the issues with which I disagree, I deem it necessary to discuss in some detail my understanding of the legal principles governing this case.

First, the nature of the contract between Quick Point and Aronson should be clarified. In retrospect, Quick Point made a bad bargain. It agreed to pay royalties on the Aronson invention as long as it continued to make and sell the same, and the agreement, as the district court found, had *no relation to whether or not the item was ever patented. Quick Point Pencil v. Aronson,* No. 75-1056C(1) (E.D. Mo., filed Dec. 29,

12. It is interesting to note that Aronson abandoned her effort to get a patent in September of 1961, about six months after her husband applied for a patent on a similar device. He received a patent in 1964.

13. In view of our conclusion we need not reach Quick Point's contentions that the license was in restraint of trade and violated the federal antitrust laws, or that under Missouri law the license was not enforceable.

1. *See* footnote 11 of the majority opinion, *supra.*

2. *See* footnote 9 and text accompanying notes 12 and 13 of the majority opinion, *supra.*

1976).[3] The parties no doubt intended that Aronson would in good faith attempt to patent the keyholder, but Quick Point nevertheless bound itself to pay even if those efforts failed. It should be emphasized that had the contract been *conditioned* on the issuance of a patent, it would have terminated long ago by its own terms. Similarly, had Aronson abandoned the application in bad faith while there was a reasonable likelihood of success with the Patent Office, Quick Point might very well have had a breach of contract remedy. But there is no indication whatsoever that Aronson exercised bad faith and one can only assume that the parties acquiesced in the 1961 Patent Office's determination that the invention was unpatentable or, at least, agreed that no further efforts were required.

With the nature of the contract thus identified, and hypothetical possibilities set aside, the core of this controversy becomes clear: these parties entered into a trade-secret licensing agreement[4] that provided for payment of royalties for an indefinite time on an item that proved to be unpatentable and which others have now copied. One party now seeks to be released from its contractual obligation. Thus stated, this case is virtually on all fours with *Warner-Lambert Pharmaceutical*

3. The majority notes that had a patent issued Quick Point would have had to pay royalties only for the patent period, in light of *Brulotte* v. *Thys,* 379 U. S. 29 (1964). That is true, but in this context is relevant only to the patent misuse analogy that appellant appears to be drawing and which I have discussed at footnote 9, *infra.* It might also be pointed out that had a valid patent issued in 1961, when it was in fact denied, Quick Point would still be liable for royalties until 1978.

4. The majority questions characterizing this agreement as a trade-secret licensing agreement, noting that the keyholder was a simple device and could be copied. The fact remains that the keyholder was secret at the time it was disclosed and it was not successfully copied until the late 1960's, long after it had been marketed. It is precisely because disclosure and marketing may lead to copying that parties will enter into express contracts extending payment obligations beyond the duration of secrecy. The question is whether such agreements are enforceable as a matter of contract law, not whether, absent an express agreement, trade secret law would afford protection once copying has occurred.

Co., Inc. v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D. N.Y. 1959), *aff'd,* 280 F.2d 197 (2d Cir. 1960). In *Warner-Lambert,* a manufacturer agreed to make payments to the discoverer of the formula for Listerine as long as it continued to manufacture the product. The formula eventually became public, after many years under the agreement, and Warner-Lambert sought release from the contract. The court upheld the agreement, and established the rule that "A license agreement with respect to a trade secret may last indefinitely and does not, in absence of express contrary language, terminate when the secret is disclosed." 2 Callman, *Unfair Competition and Trademarks* § 57(b) (3rd ed. 1968). This court must decide whether, in light of various federal policies expressed by the Supreme Court since the *Warner-Lambert* decision, the result on these facts should be different than it was in the Listerine controversy.[5]

Before reaching the issues that seem decisive here, some of appellant's arguments should be addressed. Appellant recognizes the parallels between this case and *Warner-Lambert* but contends that the fact that a patent application was "involved" distinguishes this case and invokes certain policies expressed in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969). This contention is apparently what persuaded the majority to analyze the issues as it did, but I find appellant's arguments unpersuasive and a

5. It should be noted that Quick Point did not argue on appeal that the contract was unenforceable under state law for being of infinite or uncertain duration. This subject was treated at length in *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd,* 280 F.2d 197 (2d Cir. 1960), and that court took into account Missouri law, which would probably govern the Quick Point contract. Although there is a canon of contract construction which provides that an obligor of a contract indefinite as to duration will be released from his duty after a reasonable time, *see Freeport Sulphur Co.* v. *Aetna Life Ins. Co.,* 206 F.2d 8 (5th Cir. 1953), it is somewhat doubtful that that canon would apply here—Quick Point had within its power the ability to terminate the contract of its own accord by ceasing manufacture; it was also permitted to terminate if it became "dissatisfied" with the volume of sales.

brief explanation may clarify my view that the "involvement" of a patent application has no bearing on the resolution of this case.

In the first part of the *Lear* decision the Supreme Court abolished the doctrine of patent licensee estoppel, 395 U.S. at 670-71. In the second portion of the opinion, upon which appellant relies here, the Supreme Court considered whether Adkins could claim contractual royalties for the entire patent period based on the pre-issuance disclosure of trade secrets:

> The inventor does not merely argue that since Lear obtained privileged access to his ideas before 1960, the company should be required to pay royalties accruing before 1960 regardless of the validity of the patent which ultimately issued. He also argues that since Lear obtained special benefits before 1960, it should also pay royalties during the entire patent period (1960-1977), without regard to the validity of the Patent Office's grant. We cannot accept so broad an argument. *Id.* at 672.

Quick Point contends that there is no distinction between the situation in *Lear,* where a patent application is licensed, a patent issues, and the patent is then declared invalid and the situation here, where a patent application is licensed, and the Patent Office then refuses to issue a patent. In neither case should royalties based on disclosure of a trade secret be enforced.

But there is a clear distinction between the two situations which becomes readily apparent upon examining the major policy underpinning the Supreme Court's decision. The Court was wary of enforcing the claimed trade secret royalties in *Lear* because as a practical matter it would undercut the abolition of the licensee estoppel doctrine:

> Adkins' position would permit inventors to negotiate all important licenses during the lengthy period while their applications were still pending at the Patent Office, thereby disabling entirely all those who have the strongest incentive to show that a patent is worthless. 395 U.S. at 672.

In other words, if the trade secret disclosed in a licensing agreement coincided exactly with what was made public in the patent,[6] and the licensee was nevertheless bound to pay on the basis of the initial disclosure, he would have no incentive to challenge the patent itself—his obligation would remain the same whatever the patent's validity. The public would thus be deprived of an effective challenge to patentability and would go on "paying tribute to [a] would-be monopolist." *Id.* at 670. This policy of "unmuzzling" the licensee, and even giving him a positive incentive to challenge patent validity, is not implicated in the situation where no patent issues, and where in fact the secret disclosed must be regarded as unpatentable.[7] In ignoring this policy, appellant has essentially construed *Lear* as calling into question the validity of *any* trade secret agreement.[8]

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6. The trade secrets that Adkins disclosed were precisely the same as those disclosed in the issued patent, *see Brief for Respondent Adkins* at 49-50. *See generally,* McCarthy, " 'Unmuzzling' the Patent Licensee: Chaos in the Wake of Lear v. Adkins," 45 *Geo. Wash. L. Rev.* 429 (1977).

7. For other cases in which the parties' express contract was not predicated on the issuance of a patent, but a patent application was "involved" and the courts held that *Lear* did not govern the case, *see Wrigley* v. *Compudine Corp.,* 390 F. Supp. 478 (E. D. Pa. 1975); *Heltra Inc.* v. *Richen-Gemco, Inc.,* 395 F. Supp. 346 (1975), *rev'd on other grounds,* 191 U.S.P.Q. 663 (4th Cir. 1976).

8. Appellant's reading of *Lear* also relies on another portion of the opinion. The Supreme Court declined to decide whether Adkins could claim royalties accruing *before* 1960, the date when the patent issued, since "it squarely raises the question whether, and to what extent, the States may protect owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." 395 U. S. at 674. It is this portion of *Lear* which raised many questions as to the validity of state trade secret law in general; some of those questions were, of course, answered by *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974). Appellant claims that this passage in *Lear* means states cannot protect owners of unpatented inventions in *all* circumstances and the Quick Point-Aronson contract is one of them. It is self-evident that that argument

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In light of the Supreme Court's subsequent decision in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), it is clear that *Lear* cannot be extended so far.

Kewanee was a trade secret misappropriation case in which the Supreme Court held that as a general rule state trade secret law is not incompatible with federal patent policy. More specifically, the Supreme Court implicitly approved the enforcement of trade secret licensing agreements:

> Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret * * *. Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance. 416 U.S. at 486-87 (citations omitted).

See also Painton & Co. v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Sinclair* v. *Aquarius Electronics, Inc.*, 184 U.S.P.Q. 682 (Cal. Dist. Ct. of Appeal, 1st Dist., Div. Two, 1974). *Kewanee* thus limited the potentially broad implications of *Lear* that appellant urges and it is *Kewanee* rather than *Lear* to which this

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assumes its own conclusion; analysis of underlying policies in *Kewanee* and other cases is the only way to determine whether the contract conflicts with federal law. *See* discussion at pages A13-A20 of this opinion.

court should look for guidance in answering the question presently before it.

Appellant contends that this case is distinguishable from *Kewanee* because the trade secret disclosed is no longer secret. It is true that *Kewanee* dealt not with an express contract extending trade secret royalties beyond the duration of secrecy, but with the more typical misappropriation case in which there are inherent limitations upon the protection the trade secret owner receives. Absent an express contract, the owner's rights against even those who learned the secret from a confidential relationship end within a certain time after, for example, independent discovery by a third party, *see* 416 U.S. at 489-90. That is not to say, however, that duration is determinative in ascertaining whether trade secret law conflicts with patent law, for trade secret protection can last significantly longer than patent protection, as in the famous example of the long-secret formula for Coca-Cola. What the Supreme Court focused on in *Kewanee* was whether the existence of trade secret protection would provide a significant disincentive to patent, thereby impinging upon the congressional objective of encouraging public disclosure of important inventions and keeping them in the public domain. *Id.* at 484. The Court concluded that whatever disincentives trade secret protection might provide were not significant enough to require federal preemption of the states' laws. The same type of analysis is helpful in deciding whether overriding federal policies require preemption of state contract law and a consequent refusal to enforce the Quick Point-Aronson bargain.

As to whether the contract here conflicts with the federal policy of leaving things in the public domain once they have become public, the answer seems obvious. Strangers to this contract have every right to copy the keyholder and they have done so. This distinguishes the situation from the problem involved by the enforcement of unfair competition laws faced in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964);

see Sinclair v. *Aquarius Electronics, Inc., supra,* 184 U.S.P.Q. at 686. The more difficult question is whether the enforcement of contracts such as this creates a significant disincentive to patent because, by extending a right to royalties beyond the duration of secrecy, the trade secret licensor insulates himself from the *effects* of public disclosure. *See* 74 *Harvard L. Rev.* 409, 411 (1960). Since a patent royalty agreement cannot extend beyond the patent's expiration date, *Brulotte* v. *Thys,* 379 U.S. 29 (1964), the potential availability of a much longer royalty period through private agreement might make the latter alternative much more attractive.[9]

It would perhaps be sufficient for the purposes of this case to point out that the "disincentive" argument has little force where an unpatentable invention is involved, for there is no great federal interest in encouraging attempts to patent unpatentable subject matter, and only the slightest gain to be derived from increasing the number of applications on items of dubious patentability. *See Kewanee Oil Co.* v. *Bicron Corp., supra,* 416 U.S. at 484-89. But even from a broader point of view, the disincentive argument is not particularly compelling. Although a trade secret licensor might well prefer to obtain a private agreement ensuring royalties for an extended time rather than to license a patent for 17 years, licensees are most apt to think differently. In other words, it is from the perspective of the bargaining situation that the risk of deterrence from patent application must be assessed, and in most cases the value of

9. In addition to the danger that extended trade secret protection will cause a weakened incentive to patent, there may be another theory underlying this argument, namely, that freedom to contract should be circumscribed by a "trade secret misuse" doctrine just as it is circumscribed by the patent misuse doctrine expressed in *Brulotte* v. *Thys,* 379 U. S. 29 (1964). I think it unnecessary to discuss this theory in much detail; the patent misuse doctrine is to prevent a party from using his extraordinary legislative grant of exclusivity as leverage to extend the benefits he has obtained. The trade secret owner has no such leverage; he cannot guarantee his licensees freedom from encroachment by others. *See* Milgrim, *Trade Secrets,* § 6.05[2][d] (1977).

patent protection will be important enough to the licensee that the trade secret owner would not be able to extract a contract of indefinite duration beyond the point of secrecy, when other parties can copy the item royalty-free. Even in the instant case, where Quick Point for whatever reason agreed to such a contract, there was nevertheless every incentive for Aronson to patent. Quick Point would have paid much higher royalties for the patent period and Aronson would not have run the risk that Quick Point would cease manufacture and leave her with an unsellable idea, already copied by others. A well-known advocate of trade secret protection has expressed the distinctions between the interests sought to be served by patent law and those served by trade secret law, and has discussed the very issue present in this case:

> [T]he license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.
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> In light of these distinctions, and the effect that they have on the bargaining between the parties, it is my view that the rights and duties bargained for and embodied in the trade secret license should govern. If a trade secret licensee does not elect to condition continuing royalty on continuing secrecy, we may assume that the value of immediate disclosure weighed heavily. It is no more appropriate for a court of law, after the fact, to renegotiate a trade secret license agreement when the subject matter becomes generally known than it is for a court to set aside a contract to purchase a house * * * where the purchaser could have driven a better bargain. Thus, leaving the parties where their bargain has placed them in a trade secret licensing context is not inconsistent

> with holding that a patent licensor may not require royalties beyond the life of the patent. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 30, 31 (1971).

See also Milgrim, *Trade Secrets,* § 6.05[2][d], § 6.05[4] (1977); *Sinclair* v. *Aquarius Electronics, Inc., supra.* I find that analysis persuasive.

In summary, the contract here was negotiated at arms length. There is no evidence of misrepresentation, bad faith, or inequality of bargaining power. Quick Point had the opportunity to assess its risks and took a gamble and has called upon the court for relief because it did not like the results. I conclude that no federal patent policies bar the enforcement of the contract according to its terms. Moreover, although I do not dismiss the possibility that a trade secret license can run afoul of the Sherman Act, I find nothing in this record that establishes an unreasonable restraint of trade as a result of this agreement. Finally, appellant's argument that it should be excused from performance because the purpose of the contract has been frustrated is wholly without merit.

I would affirm the district court.

A true copy.

Attest:

Clerk, U. S. Court of Appeals, Eighth Circuit.

UNITED STATES COURT OF APPEALS
For the Eighth Circuit

September Term, 1977

77-1142

QUICK POINT PENCIL COMPANY, *Appellant,* vs. JANE ARONSON, *Appellee.*	Appeal from the United States District Court for the Eastern District of Missouri

The Court having considered petition for rehearing en banc filed by counsel for appellee and, being fully advised in the premises, it is ordered that the petition for rehearing en banc be, and it is hereby, denied.

Considering the petition for rehearing en banc as a petition for rehearing, it is ordered that the petition for rehearing also be, and it is hereby, denied.

January 4, 1978

UNITED STATES DISTRICT COURT
Eastern District of Missouri
Eastern Division

QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Plaintiff*,		
vs.	}	No. 75-1056C(1)
JANE ARONSON (formerly known as Jane Leopoldi), *Defendant.*		

JUDGMENT

(Filed in U.S. District Court December 29, 1976)

Findings of fact and conclusions of law dated this day are hereby made a part of this judgment.

It Is Ordered, Adjudged and Decreed:

(a) That the contract in question is valid and enforceable so long as plaintiff continues to make and sell the key holder item which is the subject of the contract;

(b) Plaintiff has the continuing liability to make royalty payments under said contract to defendant, which liability of the plaintiff can be terminated by the simple expediency of plaintiff ceasing to make and sell said key holder item;

(c) Plaintiff is ordered to pay to defendant the monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter with interest at the rate of 6 percent per annum.

(d) The defendant shall recover of the plaintiff her costs.

/s/ JAMES H. MEREDITH
United States District Judge

Dated this 29 day of December, 1976.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Filed in U.S. District Court December 29, 1976)

This matter was submitted to the Court on agreed stipulation of facts, exhibits, affidavits and briefs. Plaintiff has sued for declaratory judgment. Both plaintiff and defendant filed motions for summary judgment. There are no facts in dispute. The Court makes the following findings of fact.

FINDINGS OF FACT

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. On June 26, 1956, defendant entered into an agreement with the plaintiff which gives plaintiff the exclusive license and right to make and sell key holders of the type shown in defendant's patent application No. 542,677, which was filed with the United States Patent Office on October 25, 1955. The application was disclosed by the defendant to the plaintiff's officers. The agreement was amended on June 27, 1956. The agreement provides that plaintiff would pay defendant royalties at the rate of 5 percent and if no patent was issued within five years of June 27, 1956 the royalties would be reduced to 2½ percent "as long as you [plaintiff] continue to sell the same."

5. Plaintiff commenced manufacturing key holders in July of 1956 and paid a five percent royalty on gross sales until June 26, 1961, when the royalty was reduced to two and one-

half percent. On that date defendant had not been granted a patent on application No. 542,677.

6. On January 27, 1959, the parties executed a supplementary agreement, which provided for royalties on key holders sold in combination with rulers, watches and other items. This agreement did not otherwise alter any terms of the original agreements.

7. Plaintiff paid royalties to defendant in excess of $200,000.00 from July 9, 1957 to September, 1975.

8. Defendant's key holder invention was never patented. In 1956 the United States Patent Office rejected defendant's first application. This was amended and rejected in 1957. An appeal was filed in the Patent Office to the Board of Appeals and on September 27, 1961, the Board of Patent Appeals held this was an unpatentable invention.

9. In the late 1960's and in 1970 competitors of the plaintiff began making key holders similar to the one in question and since no patent has been granted the competitors continued to make these similar key holders without paying royalties.

10. Defendant has demanded the monthly royalty payments for the month of October, 1975 which plaintiff refuses to make. Plaintiff continues to manufacture the key holder; however, its share of the market has declined even though the number of key holders manufactured has increased.

Conclusions of Law

1. This Court has jurisdiction by virtue of 28 U.S.C. § 1332 in view of the fact that plaintiff is a Missouri corporation with its principal place of business in Fenton, Missouri, and defendant is a citizen and resident of the State of Illinois, and the amount of controversy exceeds $10,000.00. This action is for declaratory judgment under 28 U.S.C. § 2201.

2. The language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted. Plaintiff agreed to pay 5 percent royalty to defendant for the first five years and 2½ percent thereafter as long as it manufactured the key holders. Plaintiff continued to pay royalties long after the Patent Office rejected the patent of the defendant. This case is not controlled by *Compco Corporation* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) and *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225 (1964). These cases held that where a patent existed and was held invalid, then a member of the public could copy the article covered by the patent and could not be prevented from copying it.

3. This case is not controlled by *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), where the Court held that a licensee could challenge the validity of a patent. In that case at page 675, the Court stated:

> "Consequently, we have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas."

4. In this case the plaintiff had disclosed to it the secret ideas of the defendant inventor. They agreed to pay a royalty and continued to do so until they decided to cease such royalty which was long after the patent was denied. This contract is valid as long as plaintiff continues to manufacture and sell the key holders. If plaintiff desires to cease paying royalties, it must also cease making and selling the key holders.

5. Judgment will be entered in favor of defendant and against the plaintiff.

/s/ James H. Meredith
United States District Judge

Dated this 29 day of December, 1976.

JOINT STIPULATION OF UNCONTESTED FACTS

(Filed in U.S. District Court December 6, 1976)

Plaintiff and Defendant, by their respective counsel, stipulate that the following facts are uncontested, but they reserve any objections which they may have to the materiality and relevancy of any such facts to the issues in the case, and to the competency of any such evidence.

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. During the month of June, 1956, Defendant and her agent, Norbert Leopoldi, came to Plaintiff's offices in St. Louis, Missouri, in order to negotiate an agreement with Plaintiff for the use of Defendant's keyholder invention. At the close of said negotiations, Plaintiff, by its President G. A. Goessling, set forth its proposal for an agreement in its letter of June 26, 1956, to Defendant. Plaintiff's letter is attached hereto and marked as Exhibit "A". On June 27, 1956, Defendant entered a hand-written notation on Exhibit A which expressed concurrence subject to the additional paragraphs shown on Exhibit B which additional paragraphs reflected an agreement reached by telephone between Mr. G. A. Goessling of Plaintiff and Mr. N. Leopoldi, agent for Defendant. Mr. G. A. Goessling of Plaintiff affixed his signature to the agreement of Exhibit B in St. Louis, Missouri and returned it to Defendant as an enclosure with a letter dated July 13, 1956, Exhibit C.

5. The agreement as reflected in Exhibit "A" of June 26, 1956, in part, gives Plaintiff the exclusive license and right to make and sell keyholders of the type shown in Defendant's patent application, Serial No. 542,677 which was filed with the U. S. Patent Office on October 25, 1955, such application being disclosed by Defendant and her agent to Mr. G. A. Goessling of Plaintiff. The agreement as reflected in Exhibit "B" provides that the royalty rate would be reduced from 5% to 2½% if no patent issued from application Serial No. 542,677, within five years of June 27, 1956, said 2½% royalty of sales to be paid Defendant "as long as you [Plaintiff] continue to sell same".

6. Pursuant to the parties' agreement as shown in Exhibits "A" and "B", Plaintiff commenced manufacturing keyholders on or about July, 1956. Plaintiff paid Defendant a 5% royalty on the gross sales of the keyholders from July, 1956 to June 26, 1961, whereupon the royalty was reduced to 2½% of sales in accordance with the provision of the agreement as referred to in Exhibit "B". On that date, Defendant had not been granted a patent on the application Serial No. 542,677.

7. The keyholders and "keyrules" manufactured and sold by Plaintiff under the above mentioned agreement are described in Plaintiff's Quick Point Company's 1976 Catalogue, a copy of which is attached hereto as Exhibit "D".

8. On January 27, 1959, the parties executed a Supplementary Agreement, Exhibit "E", with respect to royalties on keyholders sold in combination with rulers, watches and other items, said agreement relating only to the royalty rate schedule of the keyholders in combination with rulers, and not otherwise altering any term in the agreement shown by Exhibit "A" and "B".

9. On April 4, 1961, the aforesaid Norbert Leopoldi filed a patent application, Serial No. 104,496, concerning a keyholder invention. Patent No. 3,126,729 was issued to Mr. Leopoldi

on said application on March 31, 1964. A certified copy of said patent is attached hereto as Exhibit "D-1".

10. Under date of April 10, 1961, prior to the final denial of defendant's patent application, Serial No. 542,677, the law firm of Gravely, Lieder and Woodruff, specializing in patent law, on behalf of plaintiff, sent a letter to defendant and her agent, Norbert Leopoldi. Said letter is attached hereto and marked as Exhibit "D-2".

11. Plaintiff's payments of royalties on Defendant's keyholder are the following annual amounts, based upon Plaintiff's fiscal year ending March 31:

Year Ending	Royalties
3-31-57	$ 1,718.35
3-31-58	4,061.87
3-31-59	7,967.65
3-31-60	5,713.86
3-31-61	7,805.29
3-31-62	5,983.59
3-31-63	6,098.98
3-31-64	5,543.73
3-31-65	6,511.40
3-31-66	7,036.32
3-31-67	7,594.54
3-31-68	8,743.14
3-31-69	11,211.29
3-31-70	13,284.24
3-31-71	15,300.90
3-31-72	18,737.05
3-31-73	20,210.85
3-31-74	21,081.04
3-31-75	21,428.70
9-30-75 (6 months)	7,931.05
	$203,963.84

From July, 1957, to September, 1975, Defendant has received a total of $203,963.84 in royalty payments from Plaintiff, based upon Plaintiff's gross sales of the keyholders.

12. Defendant's keyholder invention was never patented. On October 25, 1955, Defendant filed Patent Application No. 542,677 on the keyholder. In 1956, the United States Patent Office first rejected Defendant's application. In 1956, Defendant filed amendments to the original application, but the Patent Office finally rejected the application in 1957. Following an appeal filed in 1958, the Patent Office (Board of Appeals) on September 27, 1961, made a final rejection of a patent on Defendant's keyholder, as an unpatentable invention. To date, the keyholder remains unpatented.

13. On March 26, 1965 Mr. G. A. Goessling of Plaintiff sent a letter to defendant. Said letter is attached hereto and identified as Exhibit "D-3".

14. In the late 1960's, certain keyholders substantially identical to that exclusively licensed by Defendant to Plaintiff began appearing on the market, and in the 1970's the competition in the keyholder market has grown and continues to grow. Plaintiff's competitors which manufacture and sell such keyholders are listed below. In separate columns corresponding to the competitor's name are listed the Exhibit number of the competitor's catalogue and of an attached example of the keyring manufactured by the competitor:

Name	Catalogue Ex.	Keyholder Ex.
Dard Products, Inc. 912 Custer Avenue Evanston, Illinois 60602	F	O
Colt & Dumont 2375 72 Street, North St. Petersburg, Florida 33710	G	—
Pat Advertising Products P. O. Box 31 Florissant, Missouri 63132	H	—
Barlow 2330 Pontious Avenue Los Angeles, California 90064	K	P

Name	Catalogue Ex.	Keyholder Ex.
Alumna-Line Nelson Boone Co. 4601 Louisville Avenue Louisville, Kentucky 40209	L	—
Hit Sales Co. 115 5th Avenue New York, New York 10003	M	—
Zippo	N	—
Vernon Co. Newton, Iowa	—	Q

Examples of four additional competing keyholders, of which the manufacturers' identity is unknown, are attached hereto as Exhibits "S" through "V". Examples of Plaintiff Quick Point Pencil Company's keyholders are attached as Exhibit "W" to "Z".

Plaintiff's competitors have made and sold, and continue to make and sell, such keyholders in competition with Plaintiff. To the extent that Plaintiff's competitors do not pay royalties on the keyholders they manufacture, such competitors do not have such a cost, which, of course, affects profits. Defendant has taken no legal action to prevent Plaintiff's competitors from copying, making and selling such keyholders inasmuch as defendant now has no legal right to do so.

15. Plaintiff continues to make and sell keyrings of the type on which Plaintiff previously paid royalties to Defendant; and Plaintiff further has made and sold and continues to make and sell keyholders of a different type on which no royalties are due Defendant.

16. Defendant has demanded the monthly royalty payment for the month of October, 1975, and that Plaintiff continue making such monthly royalty payments as provided in the

agreement; but said demand has been rejected by Plaintiff. As of October 1, 1975, plaintiff ceased making keyholder royalty payments on the advice of counsel.

WALTER M. CLARK
THOMAS E. WACK
WILLIAM J. TRAVIS
Attorneys for Plaintiff
611 Olive Street, Suite 1950
St. Louis, Missouri 63101
621-5070

Of Counsel:
ARMSTRONG, TEASDALE, KRAMER
& VAUGHAN

MARK KEANEY
Attorney for Defendant
611 Olive Street, Suite 1400
St. Louis, Missouri 63101

Of Counsel:
EDMUND A. GODULA
ALAN B. SAMLAN
DOMINIK, KNECHTEL, GODULA
& DEMEUR
20 North Wacker Drive
Suite 4020
Chicago, Illinois 60606
312/726-5342

EXHIBIT A

QUICK POINT PENCIL COMPANY
4020 Olive
Saint Louis 8, Mo.
The Finest Color Printed Mechanicals

June 26, 1956

Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago, Illinois.

Dear Mrs. Leopoldi:

The following agreement I think will be suitable and simple enough that it will be thoroughly understandable in its terminology to all of us. We are forwarding to you under separate cover a check for $750.00 and also three agreements signed. If this is in accordance with your wishes please sign and return two copies to the writer—one for my personal files and one for Quick Point Pencil Company.

Quick Point Pencil Company will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677, and will start manufacturing within 60 days after you indicate your acceptance of the following terms.

We will pay you $750.00 right away as an advance payment on royalties; the royalty rate will be 5% of our selling price (not to include shipping charges) on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677.

If we do not make and sell at least one million units by December 31, 1957, you can require us to give up the exclusive license, and if at any time the volume of sales does not meet our expectations, we can cancel the agreement by giving you written notice to that effect.

If you agree to these terms, please indicate your acceptance by signing your name at the bottom of this letter and returning two copies to me, retaining one copy for your files.

In the event of any infringement, as I discussed with Mr. Leopoldi, we will at the time decide between us any action that should be taken. However, we will not agree to enter into litigation until a mutual conference and understanding can be reached between us.

Trusting all the above meets with your entire approval so that we can get started on this item, we remain,

Yours very truly,

/s/ G. A. GOESSLING
G. A. Goessling, *President*

GAG:d

Date: June 27th, 1956

Accepted: /s/ G. A. Goessling
G. A. Goessling
Jane Leopoldi
/s/ Jane Leopoldi

Also check for $750.00 including this agreement.

I am in agreement with the above letter in its general content with the additional paragraphs as per the attached page. This was discussed and agreed upon between Mr. Goessling and Mr. Leopoldi via Long Distance Telephone on June 27th, 1956.

/s/ JANE LEOPOLDI

EXHIBIT B

N. LEOPOLDI
4180 Marine Drive
Chicago 13
BIttersweet 8-7052

June 27th, 1956

ADDITIONAL PARAGRAPHS TO AGREEMENT-LETTER OF QUICK POINT PENCIL CO. OF ST. LOUIS, LETTER OF JUNE 26th, 1956, SIGNED BY MR. G. A. GOESSLING, PRESIDENT OF QUICK POINT.

(1) In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same.

(2) Payments to Jane Leopoldi of Royalties on Keyholders, will be made quarterly, and Jane Leopoldi shall have the right to have a Certified Public Accountant check the Bookkeeping Records of Quick Point Pencil Co., to verify sales, if she so desires; this to be at her expense.

Date: June 27, 1956

Accepted: /s/ JANE LEOPOLDI
Jane Leopoldi

/s/ G. A. GOESSLING
G. A. Goessling

EXHIBIT C

July 13, 1956

Mr. and Mrs. N. Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. and Mrs. Leopoldi:

I am returning the signed supplemental agreement, which was mutually agreed upon. I am sorry that I could not get this to you at an earlier. As you know we were on vacation all last week and I was late in returning to the plant and have been so extremely busy the last few days I did not have an opportunity to go into the matter at once.

For your additional information we are making sample tool cavities of a number of styles; these tools will be completed today and we should have samples Monday.

I notice the springs you sent me are of a number of different finishes and also temper—the nickel-plated ones look far better than the cadmium plate. I do not believe the cadmium plate will stand up satisfactory. We have this item out for quotation and the prices we are receiving indicate that we will be able to buy this spring in the neighborhood of ½¢ each; therefore I do not know whether we will be able to use your springs at a 3¢ price. However, I wish you would send me 50 of the nickel-plated springs by return air mail as I would like to try them on these samples we are molding and I will return some of the molded and printed samples to you early next week so that you can see just what progress we are making. We have been hopeful of getting into work on this at a very early date and I will keep you informed as to our progress.

You mentioned to me the permanent match—as I advised you I have quite a large working file on this particular item. We

have samples of the Swedish match which was offered here sometime back. I have also been in correspondence with Dr. Joseph Ellenbogen, in England. We would be very interested in one of these that will work satisfactorily and production cost would be satisfactory. If you have any connections that you can expedite this I think we could work out something with you. Please let me hear from you regarding it and if you have any sample for one of these matches I would be very happy to see it and can return it to you after examination, if you desire me to do so.

Yours very truly,

G. A. GOESSLING, *President*

GAG:d

encl.

EXHIBIT D

Advertising Gifts from Quick Point, 197

Quick Point

New for 1976

The 1976 Quick Point Catalog formally introduces a group of new products and sales ideas that have been designed to make this the best sales year you have ever had.

And for those important Bicentennial sales you will be making, Quick Point has also created new products you will be proud to offer to your customers.

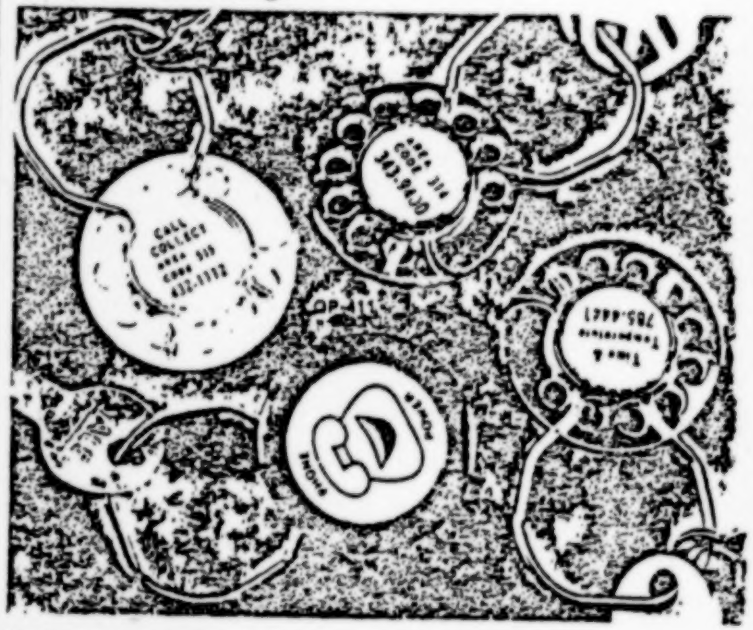
In addition to these important new features, this catalog has all the Quick Point products that have been favorites of your customers over the years.

There is also the "Nickel Pickle" Guarantee. You need never again suffer the embarrassment and profit robbing cost of misprints.

Quick Point products, Quick Point service and Quick Point care are your assurance that 1976 will be your best year ever.

New Products and Services — Page

Telephone Showrings



Miniature telephone dial (patent pending)

Puts phone number where it will be seen and remembered

Cases molded in real telephone colors

Dial molded of indestructible clear plastic

Multicolor ad copy at no extra charge

Quantity	250	500	1000	2500	5000
QP-411	.49	.47	.46	.41	.37

3ABr

Case Colors—Black, White and Red.

Dial Color—Clear only

Copy—PRICE INCLUDES TWO COLOR IMPRINT on ad copy side. 6 lines. 12 characters and spaces per line. Black imprint only on dial side. Additional colors .05(a) each

Logos or Trademarks—See printing plate charge

Packed—Individual plastic bags

Shipping Weight—Approx. 6 lbs. per 100

[EXHIBIT D-1 IS OMITTED FROM THIS APPENDIX]

EXHIBIT D-2

GRAVELY, LIEDER & WOODRUFF
705 Olive Street
St. Louis 1, Missouri

April 10, 1961

Mr. Norbert Leopoldi,
Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. & Mrs. Leopoldi:

This is to confirm Mr. Goessling's warning to you that your contemplated license arrangement with another manufacturer for a key holder which you state is shown in a patent application of Norbert Leopoldi will constitute a violation of your license agreement with Quick Point Pencil Company under the Jane Leopoldi application No. 542,677. We remind you that your license agreement is in respect of the disclosure of said Jane Leopoldi application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane Leopoldi application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application. This license being exclusive, it follows that you are not free to grant any license to anyone else to make anything disclosed in said application.

Quick Point Pencil Company has fully lived up to its agreement with you and has paid you substantial royalties during the period that it has been a licensee. One would think that your own self-interest would cause you to avoid any action that might interfere with the sales of Quick Point Pencil Company. We

trust that, upon reconsideration, you will conclude to carry out the provisions of your license agreement with Quick Point Pencil Company. If not, proper steps will be taken to enforce the agreement. Among other things, it is obvious Quick Point Pencil Company will be free from its obligation to pay royalties if you authorize some other manufacturer to make a key holder for which Quick Point Pencil Company already has an exclusive license.

Yours truly,

GRAVELY, LIEDER & WOODRUFF
By /s/ JOSEPH GRAVELY

JJG:bsc

cc: Quick Point Pencil Company

Air Mail, Special Delivery
Registered, Return Receipt Requested

P.S. We remind you that you have several times promised to send a drawing of the proposed new holder to Mr. Goessling.

EXHIBIT D-3

ST. LOUIS PLASTIC MOULDING CO.
Plastic Parts of Every Description
4605 Olive Street
St. Louis, Mo. 63108

March 26, 1965

Miss Jane Leopoldi
4280 Marine Drive
Chicago, Illinois

Dear Miss Leopoldi:

Please be advised that we will continue our payments to you as per our original agreement and whatever disposition you care to make of these payments is entirely your affair and not the affair of Quick Point Pencil Company.

We do not wish to be arbitrary in this matter but on the other hand, Quick Point is only concerned with its' original agreement concerning this and from their point of view, how you dispose of this money is entirely your affair and not the affair of Quick Point Pencil Company.

I am quite sure if you give this thought, you will be in agreement with our attitude.

Kindest regards,

Yours very truly,

/s/ G. A. GOESSLING
G. A. Goessling

GAG:jp

cc: McDonnell & McDonnell

EXHIBIT E

January 27, 1959

SUPPLEMENTARY AGREEMENT

I, Norbert Leopoldi, acting with power-of-attorney for my wife, Jane Leopoldi, agree to allow G. A. Goessling and Quick Point Pencil Co. now operating under contract license under Key Holder Patent Application No. 542677 to manufacture items embodying subject matter of this patent of items not confined to a straight utility key holder.

For example, as a key holder in combination with a ruler or watch or other dissimilar items to establish these items on a unity royalty basis of three-quarters of a cent (¾¢) per unit.

The present status of key holder only now under contract license will remain the same on a percentage basis as per our existing contract whether sold in the advertising field or in the retail merchandising field.

The Supplementary Agreement only effects items where an additional component is added to the key holder. All items made in this category are to carry a unit royalty of three-quarters of a cent (¾¢) irrespective of quantity.

The above is an additional agreement and existing contracts remain in effect as written.

/s/ NORBERT LEOPOLDI
Norbert Leopoldi

/s/ QUICK POINT PENCIL
G. A. GOESSLING

[EXHIBITS F, G, H, K, L, M AND N ARE OMITTED FROM THIS APPENDIX]

AFFIDAVIT OF JANE ARONSON (FORMERLY JANE LEOPOLDI)

(Filed in U.S. District Court November 4, 1976)

I, Jane Aronson Hossfeld (formerly known as Jane Leopoldi), being duly sworn, deposes and says as follows:

1. On June 27, 1956 I signed an agreement with Quick Point Pencil Company by G. A. Goessling, president, which allowed Quick Point Pencil Company an exclusive right to make and sell key holders of the type shown in my application Serial No. 542,677, a copy of this agreement attached as Exhibit A to the Joint Stipulation of Uncontested Facts.

2. Prior to the time of said agreement with Quick Point Pencil Company, the subject key ring was secret subject matter, the pending U. S. patent application being a secret document under the law, and neither any agent of mine nor myself had disclosed the subject matter generally to any other person except under conditions of confidence.

3. Quick Point Pencil Company was one of the first few commercial enterprises to which the subject matter key ring was disclosed, under confidence, all such disclosures made within a short period of a few weeks.

4. No further attempts were made to disclose or exploit the subject key ring as disclosed in Serial No. 542,677 because of said agreement entered into with Quick Point Pencil Company as shown in Exhibit A.

I say nothing further.

/s/ JANE ARONSON HOSSFELD
(formerly JANE LEOPOLDI)

Signed this 26th day of August, 1976.

Subscribed and Sworn to Before Me this 26th day of August, 1976.

MARTA HERNANDEZ
Notary Public

AFFIDAVIT OF NORBERT LEOPOLDI

(Filed in U. S. District Court November 4, 1976)

I, Norbert Leopoldi, being duly sworn deposes and says as follows:

1. I am the owner of all right, title, and interest in U. S. Patent No. 3,126,729 issued March 31, 1964.

2. At approximately the time of the issuance of U. S. Patent No. 3,126,729, I did discuss and advise Mr. G. A. Goessling, the president of Quick Point Pencil Company of my intent to exploit said patent inviting Quick Point Pencil Company to take an interest thereunder.

3. In response to my invitation to secure a license under U. S. Patent No. 3,126,729, Mr. Goessling warned that any contemplated license arrangement with another manufacturer for said key holder as disclosed in U. S. Patent 3,126,729 would constitute a violation of the license agreement with Quick Point Pencil Company under Jane Leopoldi's application number 542,677.

4. A letter confirming Mr. Goessling's warning was received from Mr. Gravely, of the law firm Gravely, Lieder and Woodruff, counsel for Quick Point Pencil Company. A copy of this letter is attached as Exhibit D-2 to the Joint Stipulation of Uncontested Facts.

5. I, accordingly, made no further attempts to exploit the above said patent.

I say nothing further.

/s/ NORBERT LEOPOLDI

Signed this 26th day of August, 1976.

Subscribed and Sworn to before me this 26th day of August, 1976.

MARTA HERNANDEZ
Notary Public

AFFIDAVIT OF JOHN G. GOESSLING

(Filed in U.S. District Court November 5, 1976)

I, John G. Goessling, being duly sworn upon my oath, do hereby depose and state as follows:

1. This affidavit is submitted in support of plaintiff Quick Point Pencil Co.'s Cross-Motion for Summary Judgment herein.

2. I have been employed by Quick Point continuously since 1959, and have been President of Quick Point since 1968.

3. My father, G. A. Goessling, was President of Quick Point in 1956. My father died in 1968.

4. In the 1950's Quick Point was the only manufacturer of keyholders of the type "exclusively" licensed by defendant. In the late 1960's and 1970's at least eight competitors have begun manufacturing keyholders which are substantially identical to that which is described in defendant's license. These competitors are listed in the Stipulation, ¶ 14. While Quick Point's gross sales of the keyholders have generally increased since 1956, the market for the keyholders has expanded at a

much greater rate. Quick Point's percentage of the market for keyholders of the type described in defendant's license has decreased during the late 1960's and 1970's. On information and belief, Quick Point's competitors do not pay royalties on the substantially identical keyholders manufactured and sold by them. The royalty payments to defendant add to Quick Point's cost and make it more difficult for Quick Point to compete in the sale of the keyholders.

5. The keyholders described in defendant's Patent Application Serial No. 542,677 have been manufactured by Quick Point Pencil Co. and sold to the public for the past 20 years. By its unrestricted sale of the keyholders, Quick Point has made full disclosure of defendant's keyholder invention, in every respect, to the general public. As a result, defendant's keyholder invention has not been a "secret" device, process or mechanism in any respect at any time since it has been manufactured and sold by Quick Point.

/s/ JOHN G. GOESSLING

STATE OF MISSOURI }
COUNTY OF ST. LOUIS } SS.

Subscribed and sworn to before me this 5th day of November, 1976.

/s/ WILLIAM J. TRAVIS
Notary Public

My commission expires: 1-14-79

APPENDIX

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY,
A MISSOURI CORPORATION,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITION FOR CERTIORARI FILED APRIL 4, 1978
CERTIORARI GRANTED JUNE 5, 1978

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY,
A MISSOURI CORPORATION,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

TABLE OF CONTENTS

PAGE

APPENDIX.

CHRONOLOGICAL LIST OF RELEVANT DOCKET ENTRIES

1975

Nov. 18—Complaint for Declaratory Judgment—fld, summons issd.

Dec. 2—Marshal's Return—to service of summons executed on Jane Aronson, 11/24/75, fld.

1976

Aug. 19—Joint Stipulation of Uncontested Facts—fld.

Oct. 22—Mtn Under Rule 56 FRCP for Summary Judgment on All the Issues in Favor of Deft, Supporting Memo, Affidavit of Jane Aronson, Affidavit of Norbert Leopoldi & Joint Stipulation of Uncontested Facts With Documents Attached Thereto—fld.

Nov. 4—Memo for Clerk—fld. by leave. Parties waive trial and submit cause on joint stipulation of uncontested facts and the pleadings. All briefs to be filed on or before Dec. 1, 1976. cc attys

Nov. 4—Delivered to J. Meredith—Deft's mtn under R. 56 FRCP for summary judgment on all the issues in favor of deft, supporting memo., joint stipulation of uncontested facts with documents attached thereto, affidavit of Jane Aronson, affidavit of Norbert Leopoldi & file.

Nov. 5—Plff's Cross-Mtn for Summary Judgment, Suggestions in Oppos to Deft's Mtn for Summary Judgment, and in Support of Cross-Mtn for Summary Judgment, Affidavit of John G. Goessling—fld.

Dec. 1—Deft's Response to Plff's Cross-Mtn for Summary Judgment and Plff's Supporting Legal Memo—fld.

Dec. 6—Delivered to J. Meredith—Mtn under Rule 56 FRCP for summary judgment on all the issues in favor of deft., supporting memo.; joint stipulation of uncontested facts; plff's cross-mtn for summary judgment, suggestions in oppos to deft's mtn for summary judgment, and in support of plff's cross-mtn; deft's response to plff's cross-mtn, & file.

Dec. 29—Judgment & Findings of Fact & Conclusions of law—fld, Ordered that the contract in question is valid & enforceable so long as plff continues to make & sell the key holder item which is the subject of the contract, b) Plff has the continuing liability to make royalty payments under said contract to deft., c) Plff is ordered to pay to deft the monthly royalty payments for the month of Oct., 1975 & continuing for each successive month thereafter with interest at the rate of 6% per annum, d) The deft shall recover of the plff her costs. CC Attys.

1977

Jan. 12—Notice of Appeal—fld. cc attys. Cert. copy of notice of appeal & 2 Cert. copies of docket entries delivered to USCA.

Dec. 8—Opinion and Judgment of the Court of Appeals for the Eighth Circuit.

1978

Jan. 4—Rehearing and Rehearing En Banc Denied by Court of Appeals for the Eighth Circuit.

Jan. 16—Mandate of the Court of Appeals for the Eighth Circuit.

UNITED STATES DISTRICT COURT
Eastern District of Missouri
Eastern Division

QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Plaintiff,* vs. JANE ARONSON (formerly known as JANE LEOPOLDI), *Defendant.*	No. 75-1056C(1).

COMPLAINT FOR DECLARATORY JUDGMENT

(Filed in U. S. District Court November 18, 1975)

COUNT I

Comes now plaintiff, Quick Point Pencil Company, a corporation, and for Count I of its cause of action against the defendant states and alleges as follows:

Jurisdiction

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. Defendant is a citizen and resident of the State of Illinois.

3. The amount in controversy, exclusive of interest and costs, exceeds the sum of $10,000. The jurisdiction of this Court rests upon § 1332, Title 28, United States Code (28 U. S. C. § 1332). This action is for a declaratory judgment under § 2201, Title 28, United States Code (28 U. S. C. § 2201) and is brought because there is an actual controversy now existing between the parties.

The Parties

4. At all relevant times, plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

5. At all relevant times, defendant was and is a resident of the State of Illinois, engaged in the business of making and licensing inventions.

The Facts

6. During the month of June, 1956 defendant and her agent, Norbert Leopoldi came to plaintiff's offices in St. Louis, Missouri in order to negotiate a licensing agreement with plaintiff for the use of defendant's keyholder invention. At the close of said negotiations, plaintiff set forth its proposal for a licensing agreement in its letter of June 20, 1956 to defendant. Plaintiff's letter is attached hereto, marked as Exhibit "A" and incorporated herein by reference. On June 27, 1956 defendant made a counter-offer to plaintiff. Defendant's counter-offer dated June 27, 1956 is attached hereto, marked as Exhibit "B" and incorporated herein by reference. Plaintiff accepted defendant's counter-offer and returned it to defendant by letter of July 13, 1956, a copy of which is attached hereto, marked as Exhibit "C" and incorporated herein by reference.

7. As a consequence thereof, defendant is and has been engaged in the transaction of business in Missouri and has made a contract in Missouri.

8. Pursuant to said license agreement, Exhibit "B", plaintiff commenced manufacturing keyholders in or about July, 1956. On information and belief, defendant filed Patent Application No. 542677 for said keyholder. Plaintiff paid defendant a five per cent (5%) royalty on all sales of said keyholders from 1956 to 1960. On information and belief, in 1960 defendant's keyholder Patent Application No. 542677 was rejected by the U. S. Patent Office, and plaintiff began paying defendant a two and

one-half per cent (2.5%) royalty on sales of said keyholder in monthly payments to and including September, 1975. During the year 1974 defendant's royalty was approximately $20,000. Said license agreement provides that plaintiff shall pay the two and one-half per cent (2.5%) royalty to defendant "as long as [plaintiff] continue[s] to sell same," Exhibit "B".

9. Defendant's license agreement, Exhibit "B", provides for royalty payments on an unpatented and unpatentable article for an indefinite duration (which payments have continued for a period of 19 years). As such, said license agreement conflicts with Article I, § 8, Clause 8 of the United States Constitution, and is void and unenforceable.

10. Defendant has demanded the monthly royalty payment for the month of October, 1975, and that plaintiff continue making such monthly royalty payments indefinitely; but said demand has been rejected by plaintiff.

11. A justiciable issue and actual controversy exists, ripe for determination, between the parties as to their respective obligations and rights under all the facts and circumstances as alleged. Therefore, plaintiff seeks a declaratory judgment from this Court for the appropriate relief.

Wherefore, plaintiff prays the Court for an order and decree declaring:

a. That defendant's aforesaid license is unenforceable;

b. That plaintiff has no further liability to make royalty payments under said license; and

c. That plaintiff may recover its costs and reasonable attorney's fees expended herein.

Plaintiff prays for such further relief as this honorable Court may deem necessary and proper.

Count II

Comes now plaintiff, Quick Point Pencil Company, and restates and realleges the averments contained in paragraphs 1

through 11 of Count I as though the same were fully set forth herein.

12. Defendant's aforesaid license is void, invalid and unenforceable for the further reason:

a. That it is in restraint of trade and opposed to public policy; and

b. It is indefinite, uncertain and ambiguous with respect to its terms.

13. Defendant's aforesaid license may be terminated by either party thereto because it is for no definite term, and the initiation of this action by plaintiff effectively terminates said license.

14. Defendant's aforesaid license lacks mutuality, and is void, invalid and unenforceable because it may be terminated at will by plaintiff whenever plaintiff decides to discontinue manufacturing keyholders under the license. Therefore, plaintiff seeks a declaratory judgment from this Court for the appropriate relief.

Wherefore, plaintiff prays the Court for an order and decree as set forth in the prayer in Count I above.

WALTER M. CLARK
THOMAS E. WACK
WILLIAM J. TRAVIS
Attorneys for Plaintiff
611 Olive Street, Suite 1950
St. Louis, Missouri 63101
621-5070

Of Counsel:
ARMSTRONG, TEASDALE, KRAMER
& VAUGHAN

EXHIBIT A

QUICK POINT PENCIL COMPANY
4020 Olive
Saint Louis 8, Mo.
The Finest Color Printed Mechanicals

June 26, 1956

Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago, Illinois.

Dear Mrs. Leopoldi:

The following agreement I think will be suitable and simple enough that it will be thoroughly understandable in its terminology to all of us. We are forwarding to you under separate cover a check for $750.00 and also three agreements signed. If this is in accordance with your wishes please sign and return two copies to the writer—one for my personal files and one for Quick Point Pencil Company.

Quick Point Pencil Company will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677, and will start manufacturing within 60 days after you indicate your acceptance of the following terms.

We will pay you $750.00 right away as an advance payment on royalties; the royalty rate will be 5% of our selling price (not to include shipping charges) on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677.

If we do not make and sell at least one million units by December 31, 1957, you can require us to give up the exclusive license, and if at any time the volume of sales does not meet our expectations, we can cancel the agreement by giving you written notice to that effect.

If you agree to these terms, please indicate your acceptance by signing your name at the bottom of this letter and returning two copies to me, retaining one copy for your files.

In the event of any infringement, as I discussed with Mr. Leopoldi, we will at the time decide between us any action that should be taken. However, we will not agree to enter into litigation until a mutual conference and understanding can be reached between us.

Trusting all the above meets with your entire approval so that we can get started on this item, we remain,

Yours very truly,

/s/ G. A. GOESSLING
G. A. Goessling, *President*

GAG:d

Date: June 27th, 1956

Accepted: /s/ G. A. Goessling
G. A. Goessling

/s/ Jane Leopoldi
Jane Leopoldi

Also check for $750.00 including this agreement.

I am in agreement with the above letter in its general content with the additional paragraphs as per the attached page. This was discussed and agreed upon between Mr. Goessling and Mr. Leopoldi via Long Distance Telephone on June 27th, 1956.

/s/ JANE LEOPOLDI

EXHIBIT B

N. LEOPOLDI
4180 Marine Drive
Chicago 13
BIttersweet 8-7052

June 27th, 1956

ADDITIONAL PARAGRAPHS TO AGREEMENT-LETTER OF QUICK POINT PENCIL CO. OF ST. LOUIS, LETTER OF JUNE 26th, 1956, SIGNED BY MR. G. A. GOESSLING, PRESIDENT OF QUICK POINT.

(1) In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same.

(2) Payments to Jane Leopoldi of Royalties on Keyholders, will be made quarterly, and Jane Leopoldi shall have the right to have a Certified Public Accountant check the Bookkeeping Records of Quick Point Pencil Co., to verify sales, if she so desires; this to be at her expense.

Date: June 27, 1956

Accepted: /s/ JANE LEOPOLDI
Jane Leopoldi

/s/ G. A. GOESSLING
G. A. Goessling

EXHIBIT C

July 13, 1956

Mr. and Mrs. N. Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. and Mrs. Leopoldi:

I am returning the signed supplemental agreement, which was mutually agreed upon. I am sorry that I could not get this to you at an earlier. As you know we were on vacation all last week and I was late in returning to the plant and have been so extremely busy the last few days I did not have an opportunity to go into the matter at once.

For your additional information we are making sample tool cavities of a number of styles; these tools will be completed today and we should have samples Monday.

I notice the springs you sent me are of a number of different finishes and also temper—the nickel-plated ones look far better than the cadmium plate. I do not believe the cadmium plate will stand up satisfactory. We have this item out for quotation and the prices we are receiving indicate that we will be able to buy this spring in the neighborhood of ½¢ each; therefore I do not know whether we will be able to use your springs at a 3¢ price. However, I wish you would send me 50 of the nickel-plated springs by return air mail as I would like to try them on these samples we are molding and I will return some of the molded and printed samples to you early next week so that you can see just what progress we are making. We have been hopeful of getting into work on this at a very early date and I will keep you informed as to our progress.

You mentioned to me the permanent match—as I advised you I have quite a large working file on this particular item. We

have samples of the Swedish match which was offered here sometime back. I have also been in correspondence with Dr. Joseph Ellenbogen, in England. We would be very interested in one of these that will work satisfactorily and production cost would be satisfactory. If you have any connections that you can expedite this I think we could work out something with you. Please let me hear from you regarding it and if you have any sample for one of these matches I would be very happy to see it and can return it to you after examination, if you desire me to do so.

Yours very truly,

G. A. Goessling, *President*

GAG:d
encl.

ANSWER

(Filed in U.S. District Court January 26, 1976)
(Caption Omitted in Printing)

Comes now defendant and for answer to Count I of plaintiff's Complaint, states as follows:

1. Is without information concerning the truth of the allegations contained in paragraph 1 and calls upon plaintiff for proof of same.

2. Admits the allegations contained in paragraph 2.

3. Admits that in paragraph 3, plaintiff seeks to invoke jurisdiction of this Court pursuant to certain United States Code sections, the existence of which sections is hereby admitted.

4. Admits the allegations contained in paragraph 4.

5. Admits that defendant is a resident of the State of Illinois and has entered into a contract with plaintiff relating to an invention known as a "keyholder".

6. Admits that during June and July of 1956 defendant and her agent, Norbert Leopoldi, negotiated a contract with plaintiff consisting of Exhibits "A", "B", and "C" (attached to plaintiff's Complaint).

7. Denies the allegations contained in paragraph 7.

8. Admits the allegations contained in paragraph 8.

9. Admits that royalty payments were made to defendant by plaintiff for approximately nineteen years, but denies the remaining allegations of paragraph 9; and states further that the contract, as negotiated, was for a period which was terminable by the plaintiff ceasing to make and sell said keyholder.

10. Admits the allegations contained in paragraph 10.

11. Denies the allegations contained in paragraph 11.

Further answering Count I of plaintiff's Complaint, defendant states that said contract is clear and unambiguous in that it provides for a royalty rate which was negotiated to be at a lower rate in the event the keyholder was not a patentable item within a five-year period, and further, in view of said negotiated reduced royalty rate, defendant is entitled to royalties on said keyholder so long as plaintiff continues to make and sell same.

Wherefore, defendant prays the Court that it make and enter its order and decree declaring:

a) That the aforementioned contract is valid and enforceable so long as plaintiff continues to make and sell the keyholder item which is the subject of the contract;

b) That plaintiff has the continuing liability to make royalty payments under said contract to defendant, which liability of plaintiff can be terminated by the simple expediency of plaintiff ceasing to make and sell said keyholder item;

c) That plaintiff be ordered to pay to defendant monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter;

d) That defendant recover its cost and reasonable attorney's fees expended herein; and

e) For such other and further relief as this honorable Court may deem necessary and proper under the circumstances.

Count II

Comes now defendant and for answer to Count II of plaintiff's Complaint restates and realleges the answers and averments contained in her answer set out in paragraphs 1 through 11 of Count I above as though the same were fully set forth herein.

12. Denies each and every allegation contained in paragraph 12.

13. Denies the allegations contained in paragraph 13 and states that so long as plaintiff continues to make and sell the keyholder item within the express terms of the contract, said contract continues in full force and effect and is binding on plaintiff.

14. Denies the allegations contained in paragraph 14 and states that the mere fact that plaintiff may terminate the contract by ceasing to make and sell keyholders, does not make said contract invalid for lack of mutuality, but to the contrary, it is expressly shown on the face of the contract that the lower royalty rate was negotiated by mutual consent of the parties hereto on the express basis that said contract and reduced royalty payments thereunder would continue so long as plaintiff made and sold said keyholder item.

Wherefore, having fully answered Count I and Count II of plaintiff's Complaint defendant prays that this honorable Court make and enter its order and decree as has been set forth in her answer to Count I above and for such other and further relief as this honorable Court may deem necessary and proper under the circumstances.

THOMPSON, WALTHER, SHEWMAKER & GAEBE
By HAROLD C. GAEBE, JR.
Attorneys for Defendant
720 Olive Street, Suite 2807
St. Louis, Missouri 63101
231-0838

(Certificate of Service Omitted in Printing)

MOTION

Under Rule 56 FRCP for Summary Judgment on All the Issues in Favor of Defendant

(Filed in U.S. District Court October 22, 1976)
(Caption Omitted in Printing)

Defendant, Jane Aronson (formerly known as Jane Leopoldi) and now known as Jane Aronson Hossfeld does by her attorney present this motion for summary judgment under Rule 56 FRCP in her favor on all the issues joined in this action.

This Motion is supported by the following documents:

1) Joint Stipulation of Uncontested Facts entered into and between counsel for the respective parties, with attached exhibits.

2) Affidavit of Defendant.

3) Affidavit of Defendant's agent and former husband, Norbert Leopoldi.

4) Supporting Memorandum of Legal Points and Authorities.

Defendant submits there is no genuine issue of any material fact, and the agreement involved in the present litigation can be readily determined by this Court to be a valid and binding agreement, based on the facts and the controlling law.

The Joint Stipulation of Uncontested facts and the affidavits from Defendant and her agent are immediately attached to this Motion and identified respectively as Exhibits 1, 2 and 3.

The Supporting Memorandum of Points and Authorities follow.

LEWIS, RICE, TUCKER, ALLEN & CHUBB
By D. TROIANI
611 Olive Street, Suite 1400
St. Louis, Missouri 63101
231-5833
Attorneys for Defendant

Of Counsel:
EDMUND A. GODULA
ALAN B. SAMLAN
DOMINIK, KNECHTEL, GODULA & DEMEUR
20 North Wacker Drive
Chicago, Illinois 60606
312/726-5342

CROSS-MOTION

Of Plaintiff Quick Point Pencil Company for Summary Judgment

(Filed in U.S. District Court November 4, 1976)
(Caption Omitted in Printing)

Comes now plaintiff, Quick Point Pencil Company ("Quick Point"), and moves the Court for a summary judgment pursuant to Rule 56, Federal Rules of Civil Procedure.

Quick Point's Cross-Motion for Summary Judgment is based upon the following:

1. Joint Stipulation of Uncontested Facts;
2. Affidavit of John G. Goessling; and
3. Quick Point's Suggestions in Opposition to Defendant's Motion for Summary Judgment, and in Support of Quick Point's Cross-Motion for Summary Judgment.

Quick Point submits that there is no genuine issue as to any material fact in this lawsuit and that Quick Point is entitled to a judgment as a matter of law. Quick Point seeks a declaratory judgment under 28 U. S. C. § 2201 that the royalty license entered into between Quick Point and defendant in 1956 is unenforceable in light of the final adjudication of unpatentability of defendant's licensed keyholder, in light of subsequent United States Supreme Court decisions based upon patent and antitrust law.

WALTER M. CLARK
THOMAS E. WACK
WILLIAM J. TRAVIS
Attorneys for Plaintiff
611 Olive Street
St. Louis, Missouri 63101

Of Counsel:
ARMSTRONG, TEASDALE,
KRAMER & VAUGHAN

(Certificate of Service Omitted in Printing)

JOINT STIPULATION OF UNCONTESTED FACTS

(Filed in U. S. District Court December 6, 1976)
(Caption Omitted in Printing)

Plaintiff and Defendant, by their respective counsel, stipulate that the following facts are uncontested, but they reserve any objections which they may have to the materiality and relevancy of any such facts to the issues in the case, and to the competency of any such evidence.

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. During the month of June, 1956, Defendant and her agent, Norbert Leopoldi, came to Plaintiff's offices in St. Louis, Missouri, in order to negotiate an agreement with Plaintiff for the use of Defendant's keyholder invention. At the close of said negotiations, Plaintiff, by its President G. A. Goessling, set forth its proposal for an agreement in its letter of June 26, 1956, to Defendant. Plaintiff's letter is attached hereto and marked as Exhibit "A". On June 27, 1956, Defendant entered a handwritten notation on Exhibit A which expressed concurrence subject to the additional paragraphs shown on Exhibit B which additional paragraphs reflected an agreement reached by telephone between Mr. G. A. Goessling of Plaintiff and Mr. N. Leopoldi, agent for Defendant. Mr. G. A. Goessling of Plaintiff affixed his signature to the agreement of Exhibit B in St. Louis, Missouri and returned it to Defendant as an enclosure with a letter dated July 13, 1956, Exhibit C.

5. The agreement as reflected in Exhibit "A" of June 26, 1956, in part, gives Plaintiff the exclusive license and right to make and sell keyholders of the type shown in Defendant's patent application, Serial No. 542,677 which was filed with the U. S. Patent Office on October 25, 1955, such application being disclosed by Defendant and her agent to Mr. G. A. Goessling of Plaintiff. The agreement as reflected in Exhibit "B" provides that the royalty rate would be reduced from 5% to 2½% if no patent issued from application Serial No. 542,677, within five years of June 27, 1956, said 2½% royalty of sales to be paid Defendant "as long as you [Plaintiff] continue to sell same".

6. Pursuant to the parties' agreement as shown in Exhibits "A" and "B", Plaintiff commenced manufacturing keyholders on or about July, 1956. Plaintiff paid Defendant a 5% royalty on the gross sales of the keyholders from July, 1956 to June 26, 1961, whereupon the royalty was reduced to 2½% of sales in accordance with the provision of the agreement as referred to in Exhibit "B". On that date, Defendant had not been granted a patent on the application Serial No. 542,677.

7. The keyholders and "keyrules" manufactured and sold by Plaintiff under the above mentioned agreement are described in Plaintiff's Quick Point Company's 1976 Catalogue, a copy of which is attached hereto as Exhibit "D".

8. On January 27, 1959, the parties executed a Supplementary Agreement, Exhibit "E", with respect to royalties on keyholders sold in combination with rulers, watches and other items, said agreement relating only to the royalty rate schedule of the keyholders in combination with rulers, and not otherwise altering any term in the agreement shown by Exhibit "A" and "B".

9. On April 4, 1961, the aforesaid Norbert Leopoldi filed a patent application, Serial No. 104,496, concerning a keyholder invention. Patent No. 3,126,729 was issued to Mr. Leopoldi on said application on March 31, 1964. A certified copy of said patent is attached hereto as Exhibit "D-1".

10. Under date of April 10, 1961, prior to the final denial of defendant's patent application, Serial No. 542,677, the law firm of Gravely, Lieder and Woodruff, specializing in patent law, on behalf of plaintiff, sent a letter to defendant and her agent, Norbert Leopoldi. Said letter is attached hereto and marked as Exhibit "D-2".

11. Plaintiff's payments of royalties on Defendant's keyholder are the following annual amounts, based upon Plaintiff's fiscal year ending March 31:

Year Ending	Royalties
3-31-57	$ 1,718.35
3-31-58	4,061.87
3-31-59	7,967.65
3-31-60	5,713.86
3-31-61	7,805.29
3-31-62	5,983.59
3-31-63	6,098.98
3-31-64	5,543.73
3-31-65	6,511.40
3-31-66	7,036.32
3-31-67	7,594.54
3-31-68	8,743.14
3-31-69	11,211.29
3-31-70	13,284.24
3-31-71	15,300.90
3-31-72	18,737.05
3-31-73	20,210.85
3-31-74	21,081.04
3-31-75	21,428.70
9-30-75 (6 months)	7,931.05
	$203,963.84

From July, 1957, to September, 1975, Defendant has received a total of $203,963.84 in royalty payments from Plaintiff, based upon Plaintiff's gross sales of the keyholders.

12. Defendant's keyholder invention was never patented. On October 25, 1955, Defendant filed Patent Application No. 542,677 on the keyholder. In 1956, the United States Patent Office first rejected Defendant's application. In 1956, Defendant filed amendments to the original application, but the Patent Office finally rejected the application in 1957. Following an appeal filed in 1958, the Patent Office (Board of Appeals) on September 27, 1961, made a final rejection of a patent on Defendant's keyholder, as an unpatentable invention. To date, the keyholder remains unpatented.

13. On March 26, 1965 Mr. G. A. Goessling of Plaintiff sent a letter to defendant. Said letter is attached hereto and identified as Exhibit "D-3".

14. In the late 1960's, certain keyholders substantially identical to that exclusively licensed by Defendant to Plaintiff began appearing on the market, and in the 1970's the competition in the keyholder market has grown and continues to grow. Plaintiff's competitors which manufacture and sell such keyholders are listed below. In separate columns corresponding to the competitor's name are listed the Exhibit number of the competitor's catalogue and of an attached example of the keyring manufactured by the competitor:

Name	Catalogue Ex.	Keyholder Ex.
Dard Products, Inc. 912 Custer Avenue Evanston, Illinois 60602	F	O
Colt & Dumont 2375 72 Street, North St. Petersburg, Florida 33710	G	—
Pat Advertising Products P. O. Box 31 Florissant, Missouri 63132	H	—
Barlow 2330 Pontious Avenue Los Angeles, California 90064	K	P

Name	Catalogue Ex.	Keyholder Ex.
Alumna-Line Nelson Boone Co. 4601 Louisville Avenue Louisville, Kentucky 40209	L	—
Hit Sales Co. 115 5th Avenue New York, New York 10003	M	—
Zippo Vernon Co. Newton, Iowa	—	Q

Examples of four additional competing keyholders, of which the manufacturers' identity is unkown, are attached hereto as Exhibits "S" through "V". Examples of Plaintiff Quick Point Pencil Company's keyholders are attached as Exhibit "W" to "Z".

Plaintiff's competitors have made and sold, and continue to make and sell, such keyholders in competition with Plaintiff. To the extent that Plaintiff's competitors do not pay royalties on the keyholders they manufacture, such competitors do not have such a cost, which, of course, affects profits. Defendant has taken no legal action to prevent Plaintiff's competitors from copying, making and selling such keyholders inasmuch as defendant now has no legal right to do so.

15. Plaintiff continues to make and sell keyrings of the type on which Plaintiff previously paid royalties to Defendant; and Plaintiff further has made and sold and continues to make and sell keyholders of a different type on which no royalties are due Defendant.

16. Defendant has demanded the monthly royalty payment for the month of October, 1975, and that Plaintiff continue making such monthly royalty payments as provided in the

agreement; but said demand has been rejected by Plaintiff. As of October 1, 1975, plaintiff ceased making keyholder royalty payments on the advice of counsel.

WALTER M. CLARK
THOMAS E. WACK
WILLIAM J. TRAVIS
Attorneys for Plaintiff
611 Olive Street, Suite 1950
St. Louis, Missouri 63101
621-5070

Of Counsel:
ARMSTRONG, TEASDALE, KRAMER
& VAUGHAN

MARK KEANEY
Attorney for Defendant
611 Olive Street, Suite 1400
St. Louis, Missouri 63101

Of Counsel:
EDMUND A. GODULA
ALAN B. SAMLAN
DOMINIK, KNECHTEL, GODULA
& DEMEUR
20 North Wacker Drive
Suite 4020
Chicago, Illinois 60606
312/726-5342

EXHIBIT A

QUICK POINT PENCIL COMPANY
4020 Olive
Saint Louis 8, Mo.
The Finest Color Printed Mechanicals

June 26, 1956

Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago, Illinois.

Dear Mrs. Leopoldi:

The following agreement I think will be suitable and simple enough that it will be thoroughly understandable in its terminology to all of us. We are forwarding to you under separate cover a check for $750.00 and also three agreements signed. If this is in accordance with your wishes please sign and return two copies to the writer—one for my personal files and one for Quick Point Pencil Company.

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If we do not make and sell at least one million units by December 31, 1957, you can require us to give up the exclusive license, and if at any time the volume of sales does not

meet our expectations, we can cancel the agreement by giving you written notice to that effect.

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In the event of any infringement, as I discussed with Mr. Leopoldi, we will at the time decide between us any action that should be taken. However, we will not agree to enter into litigation until a mutual conference and understanding can be reached between us.

Trusting all the above meets with your entire approval so that we can get started on this item, we remain,

Yours very truly,

/s/G. A. GOESSLING
G. A. Goessling, *President*

GAG:d

Date: June 27th, 1956

Accepted: /s/ G. A. Goessling
G. A. Goessling

/s/ Jane Leopoldi
Jane Leopoldi

Also check for $750.00 including this agreement.

I am in agreement with the above letter in its general content with the additional paragraphs as per the attached page. This was discussed and agreed upon between Mr. Goessling and Mr. Leopoldi via Long Distance Telephone on June 27th, 1956.

/s/ JANE LEOPOLDI

EXHIBIT B

N. Leopoldi
4180 Marine Drive
Chicago 13
BIttersweet 8-7052

June 27th, 1956

ADDITIONAL PARAGRAPHS TO AGREEMENT-LETTER OF QUICK POINT PENCIL CO. OF ST. LOUIS, LETTER OF JUNE 26th, 1956, SIGNED BY MR. G. A. GOESSLING, PRESIDENT OF QUICK POINT.

(1) In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same.

(2) Payments to Jane Leopoldi of Royalties on Keyholders, will be made quarterly, and Jane Leopoldi shall have the right to have a Certified Public Accountant check the Bookkeeping Records of Quick Point Pencil Co., to verify sales, if she so desires; this to be at her expense.

Date: June 27, 1956

Accepted: /s/ JANE LEOPOLDI
Jane Leopoldi

/s/ G. A. GOESSLING
G. A. Goessling

EXHIBIT C

July 13, 1956

Mr. and Mrs. N. Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. and Mrs. Leopoldi:

I am returning the signed supplemental agreement, which was mutually agreed upon. I am sorry that I could not get this to you at an earlier. As you know we were on vacation all last week and I was late in returning to the plant and have been so extremely busy the last few days I did not have an opportunity to go into the matter at once.

For your additional information we are making sample tool cavities of a number of styles; these tools will be completed today and we should have samples Monday.

I notice the springs you sent me are of a number of different finishes and also temper—the nickel-plated ones look far better than the cadmium plate. I do not believe the cadmium plate will stand up satisfactory. We have this item out for quotation and the prices we are receiving indicate that we will be able to buy this spring in the neighborhood of ½¢ each; therefore I do not know whether we will be able to use your springs at a 3¢ price. However, I wish you would send me 50 of the nickel-plated springs by return air mail as I would like to try them on these samples we are molding and I will return some of the molded and printed samples to you early next week so that you can see just what progress we are making. We have been hopeful of getting into work on this at a very early date and I will keep you informed as to our progress.

You mentioned to me the permanent match—as I advised you I have quite a large working file on this particular item. We

have samples of the Swedish match which was offered here sometime back. I have also been in correspondence with Dr. Joseph Ellenbogen, in England. We would be very interested in one of these that will work saisfactorily and production cost would be satisfactory. If you have any connections that you can expedite this I think we could work out something with you. Please let me hear from you regarding it and if you have any sample for one of these matches I would be very happy to see it and can return it to you after examination, if you desire me to do so.

Yours very truly,

G. A. Goessling, *President*

GAG:d

encl.

EXHIBIT D

Advertising Gifts from Quick Point, 197

Quick Point

New for 1976

The 1976 Quick Point Catalog formally introduces a group of new products and sales ideas that have been designed to make this the best sales year you have ever had.

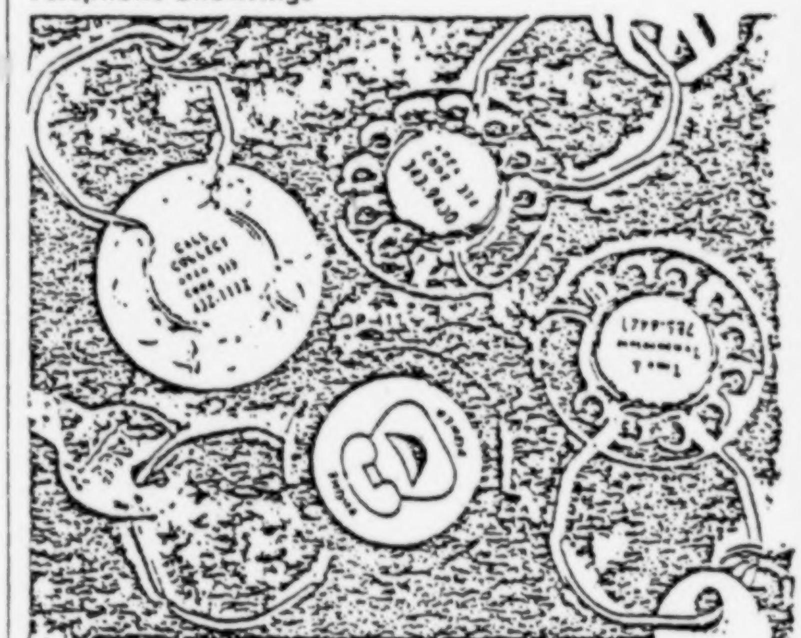
And for those important Bicentennial sales you will be making, Quick Point has also created new products you will be proud to offer to your customers.

In addition to these important new features, this catalog has all the Quick Point products that have been favorites of your customers over the years.

There is also the "Nickel Pickle" Guarantee. You need never again suffer the embarrassment and profit robbing cost of misprints.

Quick Point products, Quick Point service and Quick Point care are your assurance that 1976 will be your best year ever.

Telephone Showrings



Miniature telephone dial (patent pending)

Puts phone number where it will be seen and remembered

Cases molded in real telephone colors

Dial molded of indestructible clear plastic

Multicolor ad copy at no extra charge

Quantity	250	500	1000	2500	5000
QP-11	.49	.47	.46	.41	.37

(each)

Case Colors—Black, White and Red.

Dial Color—Clear only.

Copy—PRICE INCLUDES TWO COLOR IMPRINT on ad copy side. 5 lines, 12 characters and spaces per line. Black imprint only on dial side. Additional colors .05(a) each

Logos or Trademarks—See printing plate charge

Packed—individual plastic bags.

Shipping Weight—Approx. 8 lbs. per 100.

EXHIBIT D-1

3,126,729

THE UNITED STATES OF AMERICA

TO ALL TO WHOM THESE PRESENTS SHALL COME:

Whereas Norbert Leopoldi,

of

Chicago, Illinois,

PRESENTED TO THE Commissioner of Patents A PETITION PRAYING FOR THE GRANT OF LETTERS PATENT FOR AN ALLEGED NEW AND USEFUL INVENTION THE TITLE AND A DESCRIPTION OF WHICH ARE CONTAINED IN THE SPECIFICATION OF WHICH A COPY IS HEREUNTO ANNEXED AND MADE A PART HEREOF, AND COMPLIED WITH THE VARIOUS REQUIREMENTS OF LAW IN SUCH CASES MADE AND PROVIDED, AND

Whereas UPON DUE EXAMINATION MADE THE SAID CLAIMANT is ADJUDGED TO BE JUSTLY ENTITLED TO A PATENT UNDER THE LAW.

NOW THEREFORE THESE Letters Patent ARE TO GRANT UNTO THE SAID

Norbert Leopoldi, his heirs OR ASSIGNS

FOR THE TERM OF SEVENTEEN YEARS FROM THE DATE OF THIS GRANT

THE RIGHT TO EXCLUDE OTHERS FROM MAKING, USING OR SELLING THE SAID INVENTION THROUGHOUT THE UNITED STATES.

In testimony whereof *I have hereunto set my hand and caused the seal of the* Patent Office *to be affixed at the City of Washington this* thirty-first *day of* March, *in the year of our Lord one thousand nine hundred and* sixty-four, *and of the Independence of the United States of America the one hundred and* eighty-eighth.

Attest:

Ernest W. Snider
Attesting Officer

Edward J. Brenner
Commissioner of Patents

UNITED STATES PATENT OFFICE

CERTIFICATE OF CORRECTION

Patent No. 3,126,729 March 31, 1964

Norbert Leopoldi

It is hereby certified that error appears in the above numbered patent requiring correction and that the said Letters Patent should read as corrected below.

Column 1, line 33, after "hereof." insert

In the drawing:

FIG. 1 is a diagramatic perspective view of a preferred embodiment of the invention; and

FIG. 2 is a sectional view thereof through the central portion of FIG. 1.

The key holder or coin like keeper body 2, a fabrication, comprising top and bottom closure discs and a body portion 3 internally shaped with cam-like sloping contours to define a locking opening 1 extending along a diameter thereof, and having symmetrically related ends, accepts a similarly shaped or contoured spring like key holder ring or key receiving member 1 and allows limited distortion of said key holder to affect a forced, easily operated holding action between contours of aforesaid elements 2 and 1.

The end portions 5 of ring 1 are formed with orthogonal or right angle portions 6, while the sloping contours of body portion 3 are formed to complement the shape of end portions 5, and thus define locking orthogonal or right angle corners 7.

Signed and sealed this 8th day of September 1964.

Attest:

/s/ ERNEST M. SWIDER
(SEAL) *Attesting Officer*

/s/ EDWARD J. BRENNER
Edward J. Brenner
Commissioner of Patents

March 31, 1964 N. LEOPOLDI 3,126,729

KEY HOLDER

Filed April 4, 1961

Fig. 1.

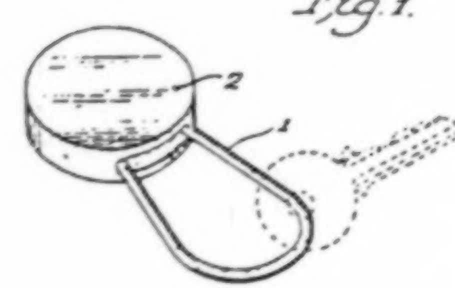
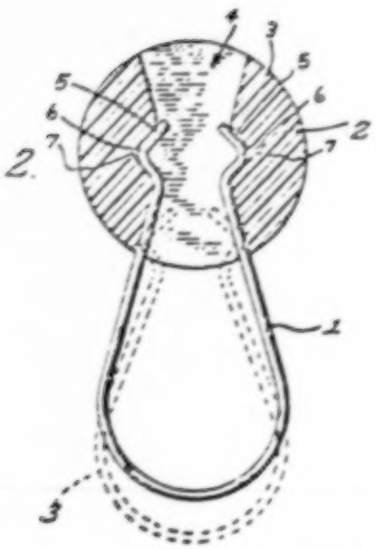


Fig. 2.



Inventor
Norbert Leopoldi

UNITED STATES PATENT OFFICE

3,126,729

Patented Mar. 31, 1964

3,126,729

KEY HOLDER

Norbert Leopoldi, 4180 Marine Drive, Chicago, Ill.

Filed Apr. 4, 1961, Ser. No. 104,496

1 Claim. (Cl. 70—459)

This invention relates to a low cost key ring or holder with detachable spring-like element to effect easy insertion of keys. Heretofore, such key rings required a secondary locking arrangement at the opening or discontinuity at each end of the ring to permit easy insertion and yet insure function and provide security against inadvertent loss of the keys. The broad application of the detachable spring-like key-holder ring and the non-rotating principle of attachment to the key holder body is increased by the availability of unobstructed areas on the surface of the holder body for decorative designs or advertising messages.

The object of the invention is to provide a low cost, two-piece key ring which will permit easy insertion of keys made possible by the temporary disassembly of the two elements one from another and the threading or otherwise locating of the keys on the spring-like key holder element.

Another object is the elimination of rotation out of a fixed, predetermined orientation of one element with respect to the other.

Another object is the construction of sloped internal contours of the key holder body to compel predetermined orientation and provide security for the keys.

These objects reside in the details of construction and operation as more fully described, claimed and made reference to in the accompanying drawings forming a portion hereof. Accidental disassembly is precluded by selection of suitable gripping force being generated between the key holder ring and key holder body.

Having described the invention, what is claimed and desired to secure by Letters Patent is:

A key holder comprising an elongate substantially planar resilient key receiving member bent into a loop with the end portions thereof positioned adjacent each other and extending generally in the same direction, said end portions each being formed to define orthogonal corner portions projecting outwardly of said member in the plane thereof, and a keeper element cooperating with said key receiving member end portions to retain the keys on said key receiving member, said keeper element comprising a coin like body having an opening extending therethrough along a diameter thereof, said opening being defined by wall structures that are formed to complement the shape of said key receiving member end portions, and compress said end portions toward each other when they are inserted together into said opening, whereby said keeper element defines opposed internal orthogonal corner positions that resiliently receive said key receiving member end portions to retain said keeper element on said key receiving member, the ends of said opening being symmetrically arranged with respect to each other.

References Cited in the file of this patent

UNITED STATES PATENTS

1,094,568	Hornich	Apr. 28, 1914

FOREIGN PATENTS

21,311	Great Britain	Nov. 23,1892
574,127	Italy	Mar. 12, 1958
1,218,407	France	Nov. 7, 1960

EXHIBIT D-2

GRAVELY, LIEDER & WOODRUFF
705 Olive Street
St. Louis 1, Missouri

April 10, 1961

Mr. Norbert Leopoldi,
Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. & Mrs. Leopoldi:

This is to confirm Mr. Goessling's warning to you that your contemplated license arrangement with another manufacturer for a key holder which you state is shown in a patent application of Norbert Leopoldi will constitute a violation of your license agreement with Quick Point Pencil Company under the Jane Leopoldi application No. 542,677. We remind you that your license agreement is in respect of the disclosure of said Jane Leopoldi application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane Leopoldi application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application. This license being exclusive, it follows that you are not free to grant any license to anyone else to make anything disclosed in said application.

Quick Point Pencil Company has fully lived up to its agreement with you and has paid you substantial royalties during the period that it has been a licensee. One would think that your own self-interest would cause you to avoid any action that might interfere with the sales of Quick Point Pencil Company. We trust that, upon reconsideration, you will conclude to carry out

the provisions of your license agreement with Quick Point Pencil Company. If not, proper steps will be taken to enforce the agreement. Among other things, it is obvious Quick Point Pencil Company will be free from its obligation to pay royalties if you authorize some other manufacturer to make a key holder for which Quick Point Pencil Company already has an exclusive license.

Yours truly,

GRAVELY, LIEDER & WOODRUFF
By /s/ JOSEPH GRAVELY

JJG:bsc

cc: Quick Point Pencil Company

Air Mail, Special Delivery

Registered, Return Receipt Requested

P.S. We remind you that you have several times promised to send a drawing of the proposed new holder to Mr. Goessling.

EXHIBIT D-3

ST. LOUIS PLASTIC MOULDING CO.
Plastic Parts of Every Description
4605 Olive Street
St. Louis, Mo. 63108

March 26, 1965

Miss Jane Leopoldi
4280 Marine Drive
Chicago, Illinois

Dear Miss Leopoldi:

Please be advised that we will continue our payments to you as per our original agreement and whatever disposition you care to make of these payments is entirely your affair and not the affair of Quick Point Pencil Company.

We do not wish to be arbitrary in this matter but on the other hand, Quick Point is only concerned with its' original agreement concerning this and from their point of view, how you dispose of this money is entirely your affair and not the affair of Quick Point Pencil Company.

I am quite sure if you give this thought, you will be in agreement with our attitude.

Kindest regards,

Yours very truly,

/s/ G. A. GOESSLING
G. A. Goessling

GAG:jp

cc: McDonnell & McDonnell

EXHIBIT E

January 27, 1959

SUPPLEMENTARY AGREEMENT

I, Norbert Leopoldi, acting with power-of-attorney for my wife, Jane Leopoldi, agree to allow G. A. Goessling and Quick Point Pencil Co. now operating under contract license under Key Holder Patent Application No. 542677 to manufacture items embodying subject matter of this patent of items not confined to a straight utility key holder.

For example, as a key holder in combination with a ruler or watch, or other dissimilar items to establish these items on a unity royalty basis of three-quarters of a cent (¾¢) per unit.

The present status of key holder only now under contract license will remain the same on a percentage basis as per our existing contract whether sold in the advertising field or in the retail merchandising field.

The Supplementary Agreement only effects items where an additional component is added to the key holder. All items made in this category are to carry a unit royalty of three-quarters of a cent (¾¢) irrespective of quantity.

The above is an additional agreement and existing contracts remain in effect as written.

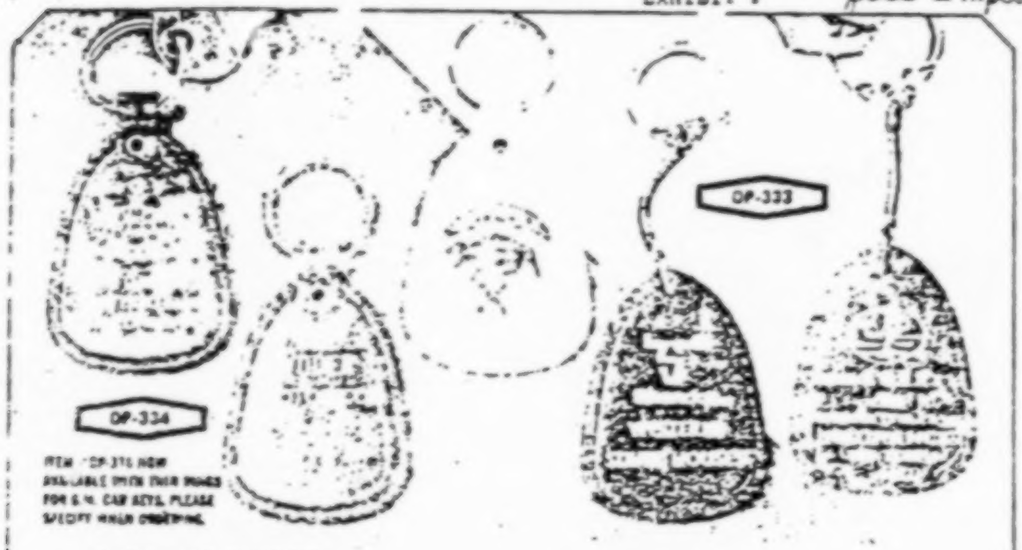
/s/ NORBERT LEOPOLDI
Norbert Leopoldi

/s/ QUICK POINT PENCIL
G. A. GOESSLING

EXHIBIT F

DARD PRODUCTS
EXHIBIT F

file Competi



ITEM DP-334 NOW AVAILABLE WITH TWIN RINGS FOR G.M. CAR KEYS. PLEASE SPECIFY WHEN ORDERING.

"TUFF" KEY TAGS

SHIPPING TIME: 3 weeks.

DP-333 WITH RINGS

Quantity	250	500	1000	2500	5000	10,000
Price Each	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DP-333 WITH SNAKE CHAINS

Quantity	250	500	1000	2500	5000	10,000
Price Each	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PACKAGING: [illegible]

DP-390

JEWELED FRAME RING-TAGS

[illegible]

DP-390

Quantity	250	500	1000	2500	5000
Price Each	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DARD EX F

EXHIBIT G

KR SERIES

Caught on the horns of an advertising dilemma? Solve it fast with our KR Series of key rings!

The KR650 Beaumont with eye-catching 2-color imprint is one sleekly styled key ring that's as flexible as it is economical. For one low price, choose the same or different copy for both sides or team up for a co-op opportunity with logo on the front and your message on the back.

For super savings, choose the Beaumont KR675 with 2-color imprint on one side and for a slight additional charge, have up to 4 lines of custom copy hot stamp imprinted on the back.

Of course the KR600 Twin-Mate is always a favorite. All-chrome snap-out ring holds keys without bunching and thin width eliminates bulging pockets. And, select one design for the Twin-Mate and that die can be used at no extra cost for the Beaumont, Tele-a-Dial and Tele-a-Cord alike.

Choose a photo reproduction of any of the KR Series and for a one-time-only processing charge, you can have the whole family of "Peeples" including the Jolly Giant, the Tele-a-Dial and our latest addition, the Tele-a-Cord.

ORDERING INFORMATION

KR600 HOLDER COLORS: Black, Medium Blue, Forest Green, Navy, Orange, Red, White, Mod Yellow

KR650, KR675 TAG COLORS: Black, Navy, Red, White, Yellow

KR650, KR675 BORDER COLORS: Silver unless specified. Optional colors available: Black, Blue, Brown, Gold, Green, Orange, Red

FINDING COLORS: Chrome only.

IMPRINT AREA: KR600, KR650 —Logo or 4 lines of copy in 1" circle on 2 sides. Copy can be different on each side and 2 color imprint is included in the price. KR675—Logo or 4 lines of copy on 1 side or tag. 2 color imprint included in price.

CURVED COPY CHARGE: $3.50 (C) per color.

METHOD OF IMPRINT: Hot stamped paper inserts with permanent mylar laminate.

INSERT COLORS: Black, Blue, Gold, Green, Orange, Red, Silver, White, Wood Grain, Yellow

IMPRINT COLORS: Black, Blue, Brown, Gold, Green, Orange, Red, Silver

PACKAGING: Bulk packed in treasure cartons. For cello bagging, add .03 (A) each

LESS THAN MINIMUM: $8.00 (C) set up charge. Absolute minimum: 125 pieces

ART, DIE AND EXTRA CHARGES: See pages 19 and 20

Advertisers Prices	250	500	1,000	2,500	5,000
KR600 (2 side copy)	.31	.30	.28	.25	.225
KR650 (2 side copy)	.39	.38	.37	.33	.30
KR675 (1 side copy)	.29	.28	.27	.24	.215
PH600 (photo)	.37	.36	.34	.305	.275
PH650 (photo)	.45	.44	.43	.385	.35
PH675 (photo)	.35	.34	.32	.295	.265

3ABC

NOTE: PH600 and PH650 requires a 1-time photo processing charge of $25.00 (C). KR600 and KR650 include 2 color, 2 position imprint. KR675 includes 2 color, 1 position imprint. The flat back of the KR675 can be hot stamp imprinted up to 4 lines at an extra charge of .03 (C) each.

IDEA!

Refer to page 21 and choose any stock cut with no extra art or die charges.

14 Colt & Dumont

EXHIBIT H

EXHIBIT H

PAT Advertising Products

P.O. BOX 31 FLORISSANT, MISSOURI 63033

PAT-AD

THE TRADE IN KEYRING

Offered only by PAT AD

Anytime within 1 year of purchase you may return this keyring for a change of imprint and receive a new replacement keyring NO CHARGE. This is a Free Service we give all our customers to keep your advertisement current with any changes.
NO OTHER SUPPLIER OF ANY PRODUCT MAKES THIS OFFER.

YOUR SATISFACTION GUARANTEED 100% – PLUS

Upon receipt of a new order the keyrings may be returned for a refund or full credit which includes your postage if you are not satisfied with either the keyrings or the imprint. You may return the keyrings for replacement any time within 1 year for any reason for a change of imprint.

We say 100% PLUS because: If you make an error when furnishing us the imprint, the keyrings will be replaced no charge, no questions, no problems. Its all part of our 1 year replacement policy.

(The only exception to this offer is that the keyrings be in the same condition as received. Not used or damaged.)

TWO SIDES CUSTOM PRINTED

Your imprint or trade mark imprinted on both sides. Both sides can be a different imprint and a different color ink.

CUSTOM PRINTED – BOTH SIDES WITH YOUR IMPRINTS
NO SET UP CHARGES FULL PRICE BELOW.

Quantity	50	100	150	250	500	1000	2500
Price each	.25	.17	.14	.13	.12	.11	.10

F.O.B. factory. Frt. paid if check sent with order.

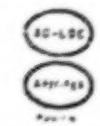
ADD .01 cent if you want each ring in a cello bag.

RIM COLORS of tough butyrate Plastic
Red, Black, Blue, White and Green. Also assorted.

Wire clips are non-breakable nickel plated spring steel.

Production time 10 days to 3 weeks.

NON-ADVERTISING KEYRING



GOLD EMBOSSED FOIL ON BOTH SIDES MAKE THIS KEYRING A VERY ATTRACTIVE RING TO GIVE TO FRIENDS AND CUSTOMERS WHEN ADVERTISING ISN'T NECESSARY.

Buy Any Quantity from 1 up.
The price is .14 cents to .11 cents each according to the unit price of the advertising keyrings purchased.

ONE SIDE AD-LOC KEYRING

A REAL BUY FOR BIG VOLUME ADVERTISING
You will be very pleased with this attractive keyring.

THE BEST BUY AT THE LOWEST COST.

A quality keyring that no one else will ever offer at this low price.
Same butyrate plastic and steel spring wire clip.

Imprint on one side in one color with a small logo added to the top or bottom of 5 lines of straight type set.

FULL PRICE BELOW: No set up charges.

Quantity	250	500	1000
Price each	.11	.10	.09

EXHIBIT K

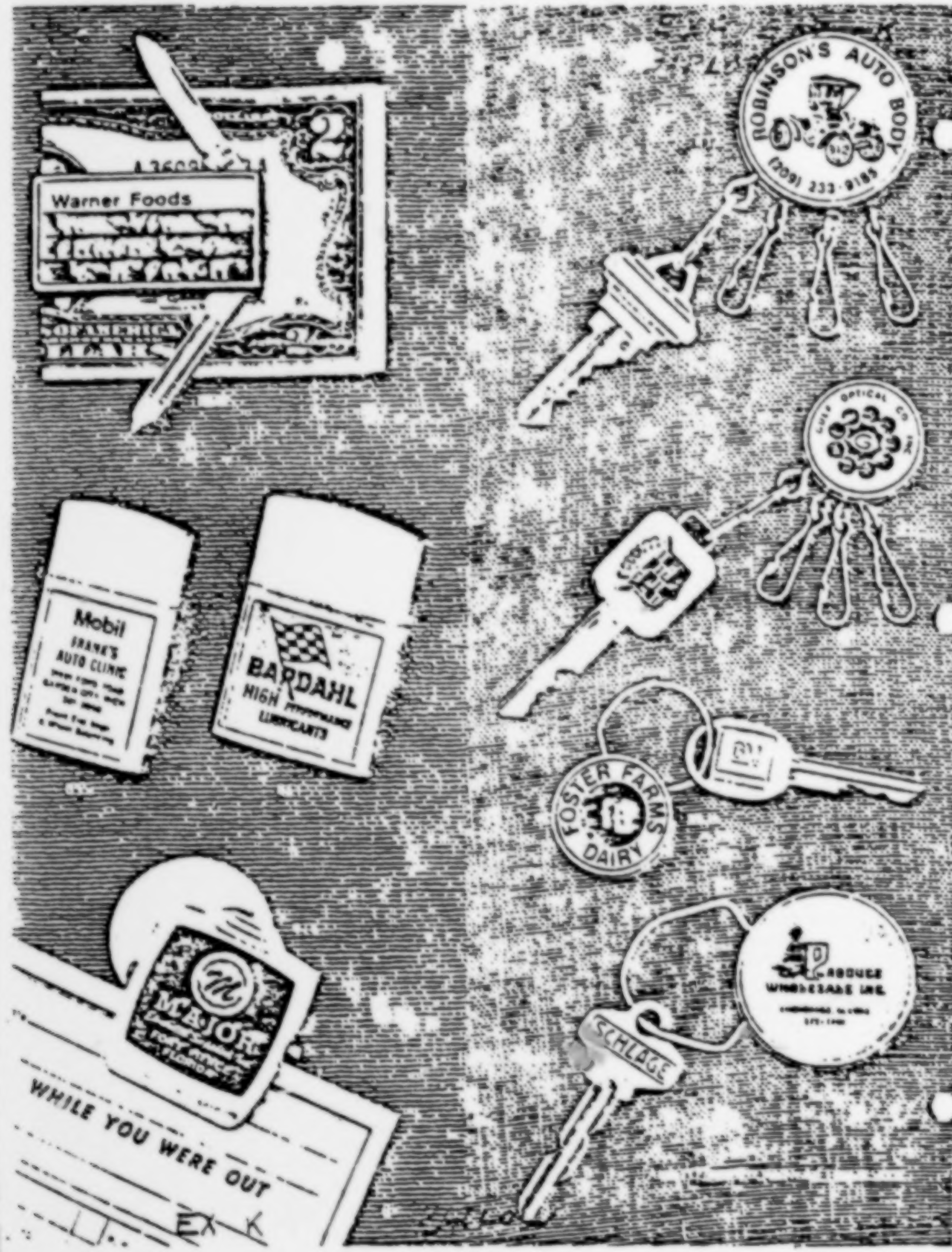
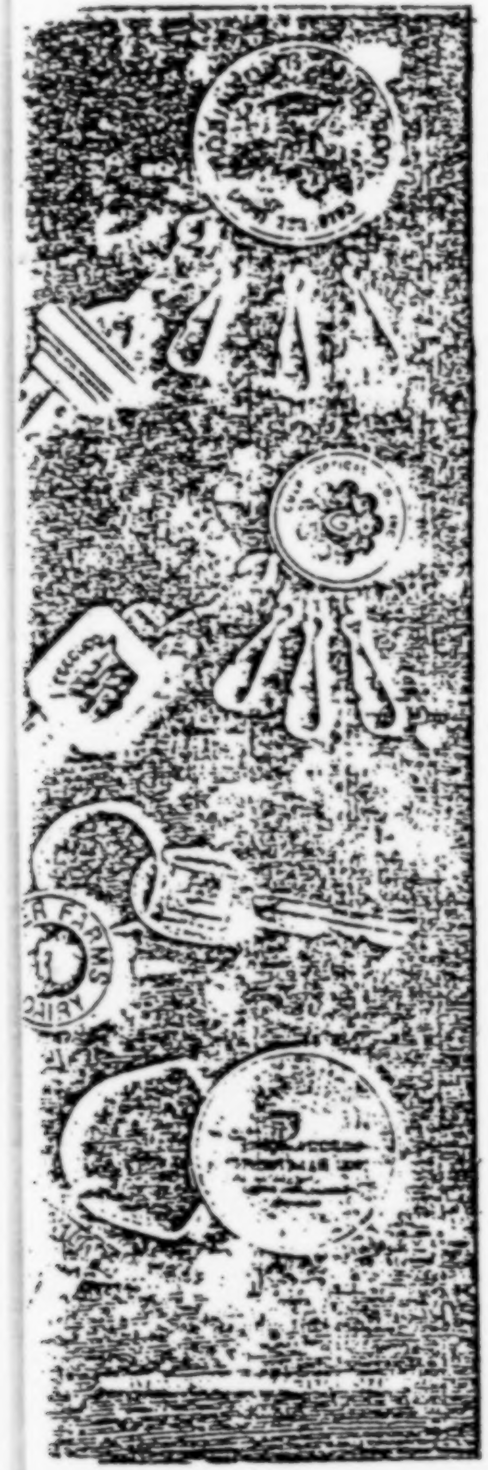

Warner Foods
Mobil
BARDAHL
ROBINSON'S AUTO BODY
FOSTER FARMS DAIRY
SCHLAGE
WHILE YOU WERE OUT
EX K

EXHIBIT K



BARLOW Utilities

TO BEST DISPLAY YOUR ADVERTISING MESS

These useful products are designed to show your message boldly. They will be in constant use so that your advertising dollar gets ful items are metal, chrome plated and covered by the BARLOW Lifetime

Imprint is either on a vinyl panel or etched plate. (see page 3).

WITH ETCHED PLATE FULL COLOR ADVERTISING IMPRINT.
Production: 90 days.

	150-499	500-999
B12P KEYHOLDER, same imprint both sides	1.60	1.55
B13P KEYHOLDER, same imprint both sides	1.60	1.55
B42P KEYHOLDER, same imprint both sides	1.35	1.30
B43P KEYHOLDER, same imprint both sides	1.35	1.30
B54P LIGHTER, imprint one side	2.50	2.40
B55P LIGHTER, imprint one side	2.50	2.40
B64P MONEY CLIP KNIFE	2.00	1.95
B73P MAGNETIC PAPER CLIP with self-stick steel disc	1.50	1.45

Up to four colors on silver or gold satin background. For extra colo

WITH VINYL PANEL ADVERTISING IMPRINT.
Production: 30 days.

B12V KEYHOLDER, same imprint both sides	1.75	1.70
B13V KEYHOLDER, same imprint both sides	1.75	1.70
B42V KEYHOLDER, same imprint both sides	1.50	1.45
B43V KEYHOLDER, same imprint both sides	1.50	1.45
B54V LIGHTER, imprint one side	2.50	2.45
B55V LIGHTER, imprint one side	2.60	2.45
B64V MONEY CLIP KNIFE	2.70	2.35
B73V MAGNETIC PAPER CLIP with self-stick steel disc	1.65	1.55

Imprint in any one color on any color background. Blue on silver sug
For extra colors see below.

EXTRA COLORS: For each extra color	[illegible]	[illegible]

DIFFERENT SECOND SIDE IMPRINT where available, add $20.00(g).

NO ART OR DIE CHARGES for one design, trademark, logo etc. if reproducible More than one design add $10.00(g) each design. Does not include creative art charged at cost.

PROOFS: Black and white $3.50, finished proof $10.00 (s).

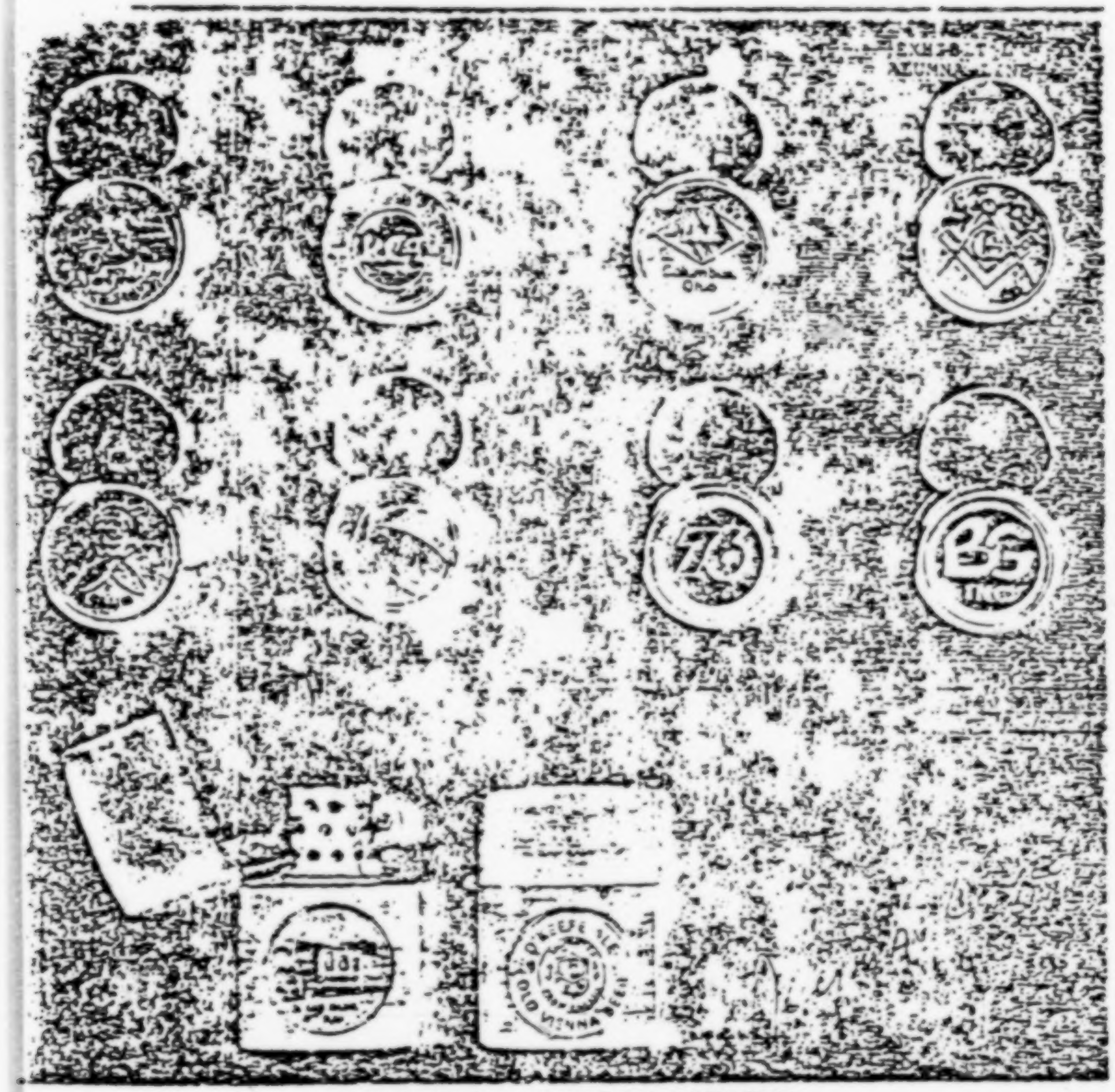
MINIMUM: 100 pieces, add 25¢ each to 150 piece price. No copy changes.

NO IMPRINT:	B12	B13	B42	B43	B54	B55	[illegible]
Each	$1.35	$1.35	$1.05	$1.05	$1.90	$1.90	[illegible]
SHIPPING WT. For 100 pieces	7 lb.	4 lb.	7 lb.	4 lb.	14 lb.	12 lb.	[illegible]

One shipping label per 100 pieces.
Packed each in a gift box.

PRODUCTION TIME AS ABOVE—F.O.B. LOS ANGELES, CALIFORNIA

EXHIBIT L



GENERAL INFORMATION

Production Time: 3 - 4 weeks.

Die Charges: None on catalogued items.

Set-up Charge: One time, on all first time orders, ($8(v)) Reorders exempt.

Color Fill. Any may be used. Blue or black used when none is indicated.

Art Charges: Line drawings, etc., normal maximum is $10 (V).

Curved Copy: No Charge.

Split Shipments and C.O.D.'s: No Charge.

Foreign Shipments: Forms must be supplied.

Proofs: On paper $3.00 (x); product sample $10 (X).

Mailers: None normally available.

Second Color: 5¢ (t) per color per item on catalogued items.

Change of Copy: $8(v) on all catalogued items.

Less Than Minimum: Not available.

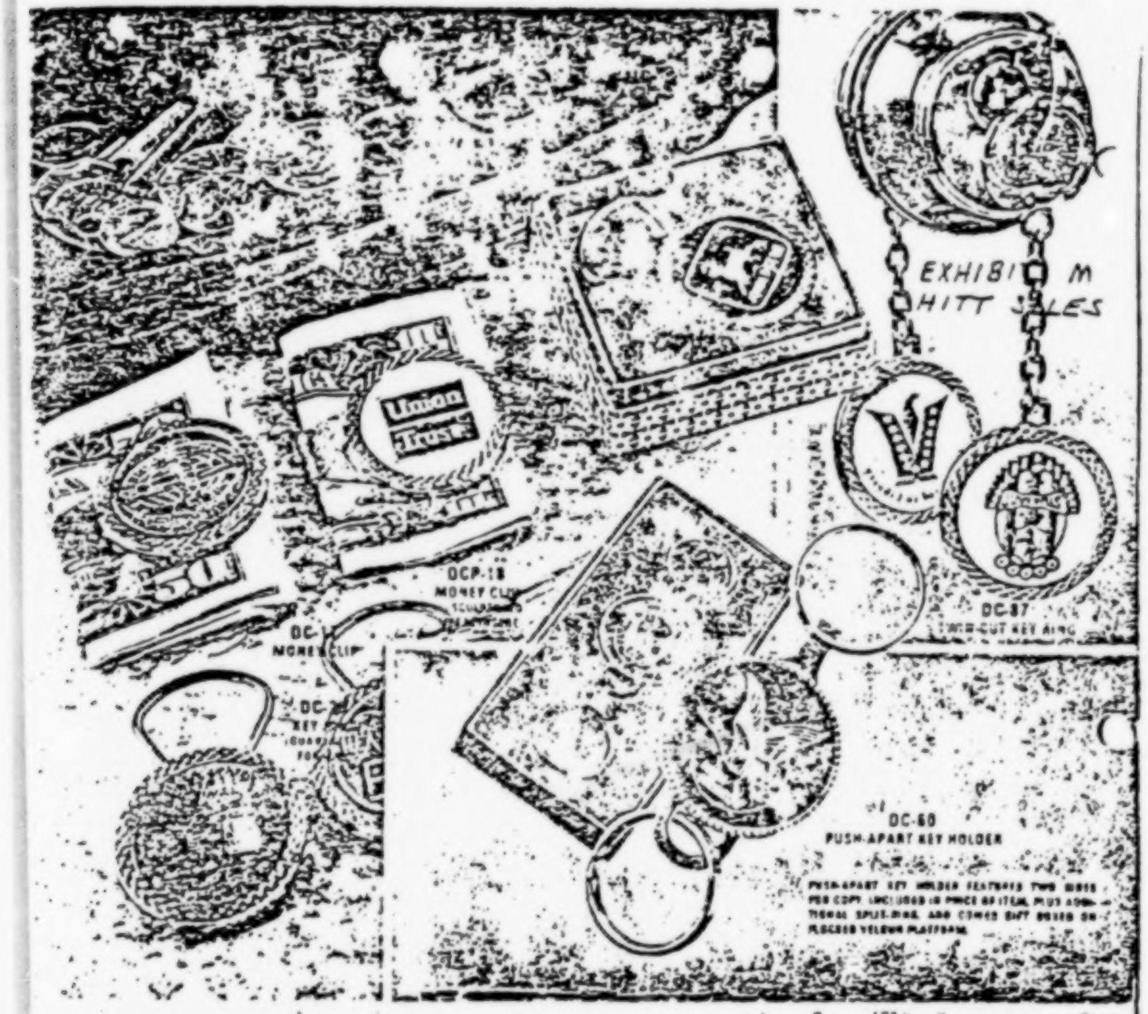
Insurance: Supplied by factory.

Union Label: Not available unless part of art work submitted.

Consecutive Numbering: 5¢ (T) per number; not color filled, up to six digits.

Packaging: No. 24 boxed; No. 550 1M per carton; all others cello bagged.

EXHIBIT M



DIAMOND-CUT POCKET ACCESSORIES WITH NEW "PERMASPHERE"

YOUR COMPANY LOGO ON HIS DIAMOND-CUT® GIFT SAYS HE'S GOT A FRIEND IN HIS POCKET

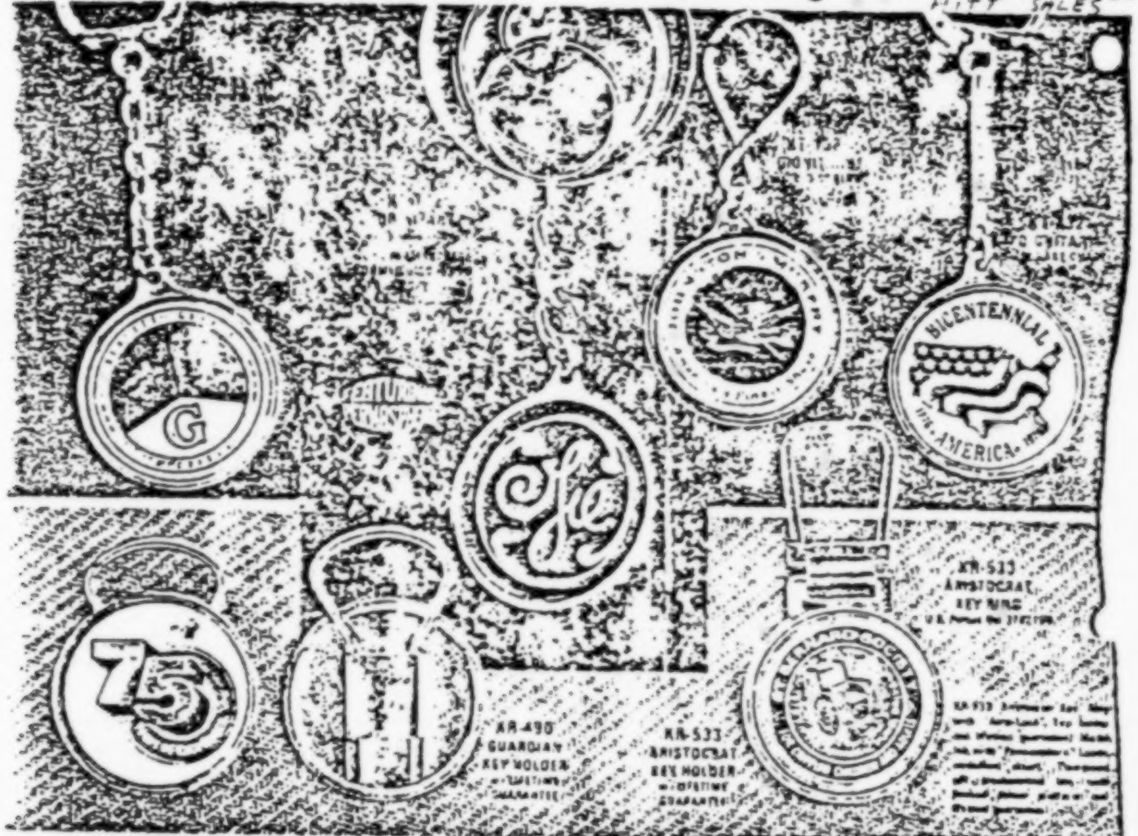
New "Permasphere" inserts, hot stamped in brilliant colors and Permatized®, add a third dimension to your trademark, copy or illustration. Diamond-Cut medallions in bright Marquis facet cuts put the finishing touches to these elegant business gifts. Each item comes gift packed on flocked velour platform and two-piece gift presentation box.

DIAMOND-CUT KEY HOLDERS - Take your pick from among six different and distinctive forms of advertising. DC-96 features standard sturdy link chain; DC-87 "Twin-Cut" and DC-60 Push-Apart offer two sides for copy included in price; DC-106 features the "Brute" chain and unbreakable split-ring key ring; DC-28 and DC-125 carry a written lifetime guarantee! Each comes with the new "Permasphere" dome disc, but may be had with sculptured metal discs in Spanish Gold or Spanish Silver finish as well. 100 units approximately 9 lbs.

DIAMOND-CUT TAPE MEASURE - Full 5-ft. white-face tape with spring-back action blade encased in a slim gold-tone metal case. Diamond-Cut design on rim is the "Aurora" pattern. Gift packed in two-part black, gold and red presentation box included in price. Your choice of either "inch" scale only, metric and inch scale, or architect's scale at one attractive price. 100 units approximately 18 lbs. For other tape measures please turn to page 6.

Permatized Elegance in Link, Snake, Ring and Genuine Lea

EXHIBIT
HITT SALES



METAL KEY HOLDERS WITH NEW "PERMASPHERE" INSERTS AND PERMATIZED® COPY THAT WILL LAST FOREVER!

NEW "PERMASPHERE" DISC helps your copy come alive. As the light magnifies the message through the curved lens it bounces back at you in 3-dimensional clarity!

Whether this disc carries your favorite design or a trademark; whether the reproduction is in two-tone gold or silver or a combination of six other colors, you can feel secure in knowing that the copy is the finest hot foil stamping in the world and Permatized® — guaranteed not to wear off — ever!

THE DIGNITARY ASSORTMENT: Elegantly styled, jewelry finished, wafer thin. Feature Permatized® copy hot stamped on colorful Lucite medallions. Includes gift packaging in attractive tuck-in box. 100 units approximately 5 lbs.

GUARDIAN KEY RINGS: (KR-490) All metal construction, novel spring clip, unbreakable, spill proof, easy to open and close. Lifetime guarantee! Includes gift packaging in tuck-in box. 100 units approximately 6-1/2 lbs.

ARISTOCRAT KEY RING: (KR-533) Metal fob with colorful Lucite medallion insert. Two-piece gift presentation box with flocked velour platform. Lifetime guarantee! Permatized® copy. 100 units approximately 8 lbs.

PRICES:	100-499	500-999	1000-2499	2500-4999	5000 & Up
KT-131 Dignitary w/Link chain	79	76	67	58	56
KT-132 Dignitary w/Brass chain	79	76	63	58	56
KT-138 Dignitary w/Key & ring	73	70	67	54	54
KT-432 Dignitary w/Snake chain	73	70	67	58	55
KR-490 Guardian Key Ring	1.25	1.22	1.08	.97	.95
KR-533 Aristocrat Key Ring	1.38	1.28	1.18	1.04	1.00

3ABYC

SECOND-SIDE COPY: [illegible]

ASI-4115 Page 6


PH-157
WALDORF
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PENTHOUSE SHAPES AND SIZES.
standard shapes" round, square, rectangle,
and mold charge of $20.00 (G) per side. For
larger sizes add $17.50 (G) per side modeling
charge.
CHOOSE FROM AMONG ANY ONE OF THE FOLLOWING SHAPES
SQUARE
RECTANGLE
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EXHIBIT N

#5990 Brush Chrome Finish.............$1.90 each

No extra charge for Logo, Trade Mark or Multi-color imprint, on 1 side. Second side imprint available at 40c per unit extra.

Gift Box and Lifetime Guarantee Included.

AFFIDAVIT OF JANE ARONSON (FORMERLY JANE LEOPOLDI)

(Filed in U.S. District Court November 4, 1976)
(Caption Omitted in Printing)

I, Jane Aronson Hossfeld (formerly known as Jane Leopoldi), being duly sworn, deposes and says as follows:

1. On June 27, 1956 I signed an agreement with Quick Point Pencil Company by G. A. Goessling, president, which allowed Quick Point Pencil Company an exclusive right to make and sell key holders of the type shown in my application Serial No. 542,677, a copy of this agreement attached as Exhibit A to the Joint Stipulation of Uncontested Facts.

2. Prior to the time of said agreement with Quick Point Pencil Company, the subject key ring was secret subject matter, the pending U. S. patent application being a secret document under the law, and neither any agent of mine nor myself had disclosed the subject matter generally to any other person except under conditions of confidence.

3. Quick Point Pencil Company was one of the first few commercial enterprises to which the subject matter key ring was disclosed, under confidence, all such disclosures made within a short period of a few weeks.

4. No further attempts were made to disclose or exploit the subject key ring as disclosed in Serial No. 542,677 because of said agreement entered into with Quick Point Pencil Company as shown in Exhibit A.

I say nothing further.

/s/ Jane Aronson Hossfeld
(formerly Jane Leopoldi)

Signed this 26th day of August, 1976.

Subscribed and Sworn to Before Me this 26th day of August, 1976.

Marta Hernandez
Notary Public

AFFIDAVIT OF NORBERT LEOPOLDI

(Filed in U. S. District Court November 4, 1976)

(Caption Omitted in Printing)

I, Norbert Leopoldi, being duly sworn deposes and says as follows:

1. I am the owner of all right, title, and interest in U. S. Patent No. 3,126,729 issued March 31, 1964.

2. At approximately the time of the issuance of U. S. Patent No. 3,126,729, I did discuss and advise Mr. G. A. Goessling, the president of Quick Point Pencil Company of my intent to exploit said patent inviting Quick Point Pencil Company to take an interest thereunder.

3. In response to my invitation to secure a license under U. S. Patent No. 3,126,729, Mr. Goessling warned that any contemplated license arrangement with another manufacturer for said key holder as disclosed in U. S. Patent 3,126,729 would constitute a violation of the license agreement with Quick Point Pencil Company under Jane Leopoldi's application number 542,677.

4. A letter confirming Mr. Goessling's warning was received from Mr. Gravely, of the law firm Gravely, Lieder and Woodruff, counsel for Quick Point Pencil Company. A copy of this letter is attached as Exhibit D-2 to the Joint Stipulation of Uncontested Facts.

5. I, accordingly, made no further attempts to exploit the above said patent.

I say nothing further.

/s/ NORBERT LEOPOLDI

Signed this 26th day of August, 1976.

Subscribed and Sworn to before me this 26th day of August, 1976.

MARTA HERNANDEZ
Notary Public

AFFIDAVIT OF JOHN G. GOESSLING

(Filed in U.S. District Court November 5, 1976)

(Caption Omitted in Printing)

I, John G. Goessling, being duly sworn upon my oath, do hereby depose and state as follows:

1. This affidavit is submitted in support of plaintiff Quick Point Pencil Co.'s Cross-Motion for Summary Judgment herein.

2. I have been employed by Quick Point continuously since 1959, and have been President of Quick Point since 1968.

3. My father, G. A. Goessling, was President of Quick Point in 1956. My father died in 1968.

4. In the 1950's Quick Point was the only manufacturer of keyholders of the type "exclusively" licensed by defendant. In the late 1960's and 1970's at least eight competitors have begun manufacturing keyholders which are substantially identical to that which is described in defendant's license. These competitors are listed in the Stipulation, ¶ 14. While Quick Point's gross sales of the keyholders have generally increased since 1956, the market for the keyholders has expanded at a much greater rate. Quick Point's percentage of the market for keyholders of the type described in defendant's license has decreased during the late 1960's and 1970's. On information and belief, Quick Point's competitors do not pay royalties on the substantially identical keyholders manufactured and sold by them. The royalty payments to defendant add to Quick Point's cost and make it more difficult for Quick Point to compete in the sale of the keyholders.

5. The keyholders described in defendant's Patent Application Serial No. 542,677 have been manufactured by Quick Point Pencil Co. and sold to the public for the past 20 years. By its unrestricted sale of the keyholders, Quick Point has made full disclosure of defendant's keyholder invention, in every respect,

to the general public. As a result, defendant's keyholder invention has not been a "secret" device, process or mechanism in any respect at any time since it has been manufactured and sold by Quick Point.

/s/ JOHN G. GOESSLING

STATE OF MISSOURI }
COUNTY OF ST. LOUIS } ss.

Subscribed and sworn to before me this 5th day of November, 1976.

/s/ WILLIAM J. TRAVIS
Notary Public

My commission expires: 1-14-79.

MEMORANDUM FOR CLERK

(Filed in U.S. District Court November 4, 1976)

(Caption Omitted in Printing)

Come now the parties and hereby waive trial and submit the cause on the Joint Stipulation of Uncontested Facts and the pleadings. All briefs to be filed on or before Dec. 1, 1976.

/s/ J. MEREDITH

WILLIAM J. TRAVIS
Attorney for Plaintiff
611 Olive Street, Suite 1950
St. Louis, Missouri 63101
621-5070

Of Counsel:
ARMSTRONG, TEASDALE,
KRAMER & VAUGHAN

MARK KEANEY
Attorney for Defendant
611 Olive Street, Suite 1400
St. Louis, Missouri 63101

Of Counsel:
DOMINIK, KNECHTEL,
GODULA & DEMEUR

UNITED STATES DISTRICT COURT
Eastern District of Missouri
Eastern Division

QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Plaintiff*, vs. JANE ARONSON (formerly known as Jane Leopoldi), *Defendant*.	}	No. 75-1056C(1)

JUDGMENT

(Filed in U. S. District Court December 29, 1976)

Findings of fact and conclusions of law dated this day are hereby made a part of this judgment.

It Is Ordered, Adjudged and Decreed:

(a) That the contract in question is valid and enforceable so long as plaintiff continues to make and sell the key holder item which is the subject of the contract;

(b) Plaintiff has the continuing liability to make royalty payments under said contract to defendant, which liability of the plaintiff can be terminated by the simple expediency of plaintiff ceasing to make and sell said key holder item;

(c) Plaintiff is ordered to pay to defendant the monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter with interest at the date of 6 percent per annum.

(d) The defendant shall recover of the plaintiff her costs.

/s/ JAMES H. MEREDITH
United States District Judge

Dated this 29 day of December, 1976.

UNITED STATES DISTRICT COURT
Eastern District of Missouri
Eastern Division

QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Plaintiff*, vs. JANE ARONSON (formerly known as Jane Leopoldi), *Defendant*.	}	No. 75-1056C(1)

FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Filed in U. S. District Court December 29, 1976)

This matter was submitted to the Court on agreed stipulation of facts, exhibits, affidavits and briefs. Plaintiff has sued for declaratory judgment. Both plaintiff and defendant filed motions for summary judgment. There are no facts in dispute. The Court makes the following findings of fact.

FINDINGS OF FACT

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. On June 26, 1956, defendant entered into an agreement with the plaintiff which gives plaintiff the exclusive license and

right to make and sell key holders of the type shown in defendant's patent application No. 542,677, which was filed with the United States Patent Office on October 25, 1955. The application was disclosed by the defendant to the plaintiff's officers. The agreement was amended on June 27, 1956. The agreement provides that plaintiff would pay defendant royalties at the rate of 5 percent and if no patent was issued within five years of June 27, 1956 the royalties would be reduced to 2½ percent "as long as you [plaintiff] continue to sell the same."

5. Plaintiff commenced manufacturing key holders in July of 1956 and paid a five percent royalty on gross sales until June 26, 1961, when the royalty was reduced to two and one-half percent. On that date defendant had not been granted a patent on application No. 542,677.

6. On January 27, 1959, the parties executed a supplementary agreement, which provided for royalties on key holders sold in combination with rulers, watches and other items. This agreement did not otherwise alter any terms of the original agreements.

7. Plaintiff paid royalties to defendant in excess of $200,000.00 from July 9, 1957 to September, 1975.

8. Defendant's key holder invention was never patented. In 1956 the United States Patent Office rejected defendant's first application. This was amended and rejected in 1957. An appeal was filed in the Patent Office to the Board of Appeals and on September 27, 1961, the Board of Patent Appeals held this was an unpatentable invention.

9. In the late 1960's and in 1970 competitors of the plaintiff began making key holders similar to the one in question and since no patent has been granted the competitors continued to make these similar key holders without paying royalties.

10. Defendant has demanded the monthly royalty payments for the month of October, 1975 which plaintiff refuses to make. Plaintiff continues to manufacture the key holder; however, its

share of the market has declined even though the number of key holders manufactured has increased.

Conclusions of Law

1. This Court has jurisdiction by virtue of 28 U. S. C. § 1332 in view of the fact that plaintiff is a Missouri corporation with its principal place of business in Fenton, Missouri, and defendant is a citizen and resident of the State of Illinois, and the amount of controversy exceeds $10,000.00. This action is for declaratory judgment under 28 U. S. C. § 2201.

2. The language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted. Plaintiff agreed to pay 5 percent royalty to defendant for the first five years and 2½ percent thereafter as long as it manufactured the key holders. Plaintiff continued to pay royalties long after the Patent Office rejected the patent of the defendant. This case is not controlled by *Compco Corporation* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964) and *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U. S. 225 (1964). These cases held that where a patent existed and was held invalid, then a member of the public could copy the article covered by the patent and could not be prevented from copying it.

3. This case is not controlled by *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), where the Court held that a licensee could challenge the validity of a patent. In that case at page 675, the Court stated:

> "Consequently, we have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas."

4. In this case the plaintiff had disclosed to it the secret ideas of the defendant inventor. They agreed to pay a royalty

and continued to do so until they decided to cease such royalty which was long after the patent was denied. This contract is valid as long as plaintiff continues to manufacture and sell the key holders. If plaintiff desires to cease paying royalties, it must also cease making and selling the key holders.

5. Judgment will be entered in favor of defendant and against the plaintiff.

/s/ James H. Meredith
United States District Judge

Dated this 29 day of December, 1976.

United States District Court
Eastern District of Missouri
Eastern Division

Quick Point Pencil Company, a Missouri Corporation, *Plaintiff*, vs. Jane Aronson (formerly known as Jane Leopoldi), *Defendant*.	No. 75-1056C(1)

NOTICE OF APPEAL

(Filed in U. S. District Court January 12, 1977)

Comes now plaintiff, Quick Point Pencil Company, and pursuant to Federal Rules of Appellate Procedure 3 and 4 hereby appeals to the United States Court of Appeals for the Eighth Circuit from the Judgment in favor of defendant and against plaintiff entered by this Court on December 29, 1976.

Dated this 12th day of January, 1977.

Plaintiff requests that the Clerk of the District Court serve notice of the filing of this notice of appeal by mailing a copy thereof to defendant's counsel of record pursuant to Federal Rule of Appellate Procedure 3(d).

Walter M. Clark
Fred Leicht
William J. Travis
Attorneys for Plaintiff
611 Olive Street, Suite 1950
St. Louis, Missouri 63101
621-5070

United States Court of Appeals
For the Eighth Circuit

No. 77-1142

Quick Point Pencil Company, a Missouri Corporation, *Appellant*, vs. Jane Aronson (formerly known as Jane Leopoldi), *Appellee*.	Appeal from the United States District Court for the Eastern District of Missouri.

Submitted: October 14, 1977
Filed: December 8, 1977

Before Lay and Ross, *Circuit Judges*, and Larson, *Senior United States District Judge*.*

Ross, *Circuit Judge*.

Quick Point Pencil Company, a Missouri corporation, brought this action for declaratory judgment, naming Jane Aronson, an Illinois resident, as defendant. The amount in controversy exceeded the statutory $10,000 and the district court had jurisdiction pursuant to 28 U.S.C. § 1332.[1] As the basis for the action, Quick Point alleged a contract between the parties negotiated in June and July of 1956, wherein Aronson granted Quick Point an exclusive license to manufacture and sell a keyholder for which Aronson (formerly Jane Leopoldi) had submitted a patent application, Serial No. 542,677, on October 25, 1955. In exchange for the exclusive license Quick Point promised to pay Aronson a five percent royalty, to be reduced to two and one-half percent if no patent were granted within five years. Quick Point agreed to pay these royalties for as long as it continued to manufacture and sell the keyholders. Aronson never obtained a patent on the keyholder but Quick Point paid royalties under the agreement until October of 1975,[2] for a total of $203,963.84.

In its complaint Quick Point alleged that the license agreement, providing for royalties on an unpatented and unpatentable article for an indefinite duration, conflicted with article I, section 8, clause 8 of the United States Constitution,[3] and the Supremacy Clause.[4] It sought declarations that the agreement was unenforceable and that it had no further liability to make royalty payments under the license. After the parties

* The Honorable Earl R. Larson, Senior United States District Judge for the District of Minnesota, sitting by designation.

1. 28 U. S. C. § 1332(a)(1) provides:

> (a) the district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $10,000, exclusive of interest and costs, and is between—
>
> (1) citizens of different States;
>
> * * * * *

2. Quick Point Pencil Company continues to make and sell the keyholders but is no longer making royalty payments under the agreement.

3. The United States Constitution provides:

> [The Congress shall have Power]
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
>
> * * * * *

U. S. Const. art. I, § 8, cl. 8.

4. The Supremacy Clause provides:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, and any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

U. S. Const. art. VI, cl. 2.

filed a joint stipulation of uncontested facts and cross-motions for summary judgment, the district court took the case under submission without trial.

On December 29, 1976, the district court ordered, adjudged and decreed that the contract is valid and enforceable and Quick Point has the continuing liability to make royalty payments for as long as it manufactures the keyholders. He concluded that "[t]he language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted." *Quick Point Pencil Co.* v. *Aronson,* No. 75-1056C(1) (E. D. Mo., filed Dec. 29, 1976). He determined that this case is not controlled by *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964); *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964); nor *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969). Quick Point appeals from that judgment.

Quick Point contends that the district court erred in holding that this case is governed solely by contract law without regard for federal patent and antitrust considerations. It argues that the principles set forth in *Lear, Inc.* v. *Adkins, supra,* should be controlling here. Aronson contends that the contract contains an unequivocal promise to pay a royalty which is independent of the existence of a patent and enforceable as long as Quick Point continues to manufacture the keyholder.

The issue we must decide is whether Quick Point, a patent application licensee, is bound by the contractual provision requiring it to pay royalties for as long as it manufactures the item described in the patent application even though the licensor abandoned the application many years ago and the licensee's competitors are freely manufacturing the unpatented item.[5] We

5. The dissent describes the contract as a "trade-secret licensing agreement." We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an "invention," it was a relatively simple device and once marketed, it was completely disclosed. *See* RESTATEMENT OF TORTS § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be his secret.")

(Footnote continued on next page.)

believe it is not so bound and reverse the district court's judgment.

The issue involves the relationship between state contract law and federal patent law. Although the Supreme Court has not decided the precise question, it has dealt with the conflict in similar contexts and has established principles that can be applied here.

We begin with the principle that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. *See Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 656; *Sears, Roebuck & Co.* v. *Stiffel Co. supra,* 376 U. S. at 232-33; *Compco Corp.* v. *Day-Brite Lighting, Inc. supra,* 376 U. S. at 238. In *Sears* the Court made the following statement concerning the relationship between state laws on unfair competition and the federal patent laws:

> To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine

(Footnote continued from preceding page.)

The dissent agrees that the parties "intended that Aronson would in good faith attempt to patent the keyholder." The language from Milgrim's law review article quoted by the dissent further supports our conclusion that patent principles apply in this case. Milgrim states:

> * * * the license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.

Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U.L. REV. 17, 30 (1971). Quick Point contracted for "the exclusive right to make and sell keyholders of the type shown in [Aronson's] application * * *." The agreement was not for disclosure but for the exclusive right to manufacture an invention that was to be patented.

inventions, see 35 U.S.C. §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards.

376 U. S. at 231-32.

We believe this principle applies to a state's contract law as well as to state unfair competition laws, *at least when a patent application is involved*. Further support for this belief is found in *Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 677 (Black, J., joined by Warren, C. J., and Douglas, J., concurring in part and dissenting in part):

> The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.

In *Lear* a patent licensee attempted to defend a suit for royalties by challenging the validity of the underlying patent. The situation was similar to the one involved here. While the patent application was pending the inventor and the manufacturer contracted for an exclusive license-royalty arrangement. Before the patent was allowed the manufacturer discontinued the royalty payments because it believed that the improvements were not sufficiently novel and that the inventor would never be able to obtain a patent.[6] The patent office did grant a patent and the inventor sued for royalties. The Supreme Court of California refused to allow the manufacturer's patent invalidity defense holding that it was estopped by the contract to make that challenge. Finding that such a rule would significantly frustrate overriding federal policies, the United States Supreme Court reversed.

Under the rule announced in *Lear,* if Aronson had obtained a patent which was later determined to be invalid, Quick Point's

6. Unlike the contract involved here the parties had agreed that if no patent were issued or if a patent were later declared invalid, the manufacturer had the right to terminate the license.

liability would have terminated.[7] In fact Quick Point could have challenged the validity of the patent and suspended payment of royalties while making the challenge. *See Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 674.

Although Aronson's position is different than the inventor's in *Lear* because no patent was granted here, we believe, as the Supreme Court did, that "enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id.* at 674.

Two other Supreme Court decisions lend support to our conclusion. In *Brulotte* v. *Thys Co.,* 379 U. S. 29 (1964), the Court held: "[A] patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se.*" *Id.* at 32. So if Aronson had obtained the patent for which she applied, after 17 years the contract with Quick Point would have been invalid and Quick Point's liability for royalties terminated.

In *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974), the Supreme Court faced another situation involving a conflict between state trade secret law and federal patent policies. In holding that state trade secret laws may protect unpatented but clearly patentable inventions without conflicting with the patent law policy of disclosure, the Supreme Court stated:

> The possibility that an inventor who believes his invention meets the standards of patentability will sit back, rely on trade secret law, and after one year of use forfeit any right to patent protection, 35 U.S.C. § 102(b), is remote indeed.

Id. at 490.

Not only did Aronson not rely on trade secret protection, it is doubtful that her keyholder would have been entitled to any such protection. The Court stated:

7. The precise point at which a licensee's liability for royalties may terminate under the rule announced in *Lear, Inc.* v. *Adkins,* 395 U. S. 653 (1969), is a matter of some dispute. In *Lear,* the date of the patent's issuance was the decisive date, but Lear had challenged the patent before it issued. Here Quick Point sought a decree that it had no *further* liability for royalties, so the date of Quick Point's challenge becomes the crucial date.

> A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.

Id. at 476 (footnote omitted).

Any member of the general public could have inspected Aronson's keyholder in an attempt to determine how to manufacture it.[8] *See Sears, Roebuck & Co.* v. *Stiffel Co., supra,* 376 U. S. at 231-32. Aronson did not take this chance. She applied for a patent, contracted with regard to that patent application,[9] and cannot now argue that patent law principles are irrelevant to this case.[10]

Aronson believed her invention was patentable and she submitted a patent application. Had a patent issued she would have had 17 years of exclusive rights to her invention before it became part of the public domain. She approached Quick Point with her idea and the parties entered into a contract anticipating

8. That, in fact, is what has happened here. The parties stipulated, and the district court found, that in the late 1960's Quick Point's competitors began making keyholders similar to the one in question and since no patent was ever granted they continue to make these similar keyholders without paying royalties. No state law could prohibit this copying. *See Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U. S. 225, 231-32 (1964).

9. Jane Aronson contends that the contract provision reducing the royalties if no patent issued within five years indicates that patent law was not considered by the parties nor applicable here. Quick Point suggests that that provision does not indicate that it anticipated that if no patent was issued within five years none would ever issue, but that it provides for the possibility that the patent would issue at a date more than five years after the contract was signed. We need not speculate as to what agreement the parties might have reached had no patent application been involved—one was.

10. In her brief Aronson argues that the pending patent application was *relevant* because it contained a disclosure that was maintained in secrecy by the United States Patent Office and thus was not available to the general public. On the other hand she contends that the agreement was *independent* of the existence of a patent.

that a patent would issue. If that had happened, under ***Brulotte*** v. *Thys Co., supra,* 379 U. S. at 32, Quick Point's liability for royalties would have ended after 17 years *in spite of the contract.* Furthermore, if a patent had issued and Quick Point had later questioned the patentability of the keyholder, under ***Lear, Inc.*** v. *Adkins, supra,* 395 U. S. at 674, it could have stopped making royalty payments and challenged the patent in court. If such a challenge were successful, Quick Point's liability for payments would have ended *in spite of the contract.*[11] We do not believe the result should be different here. The principles discussed above strongly indicate that any other conclusion would violate public policy.

We conclude that Quick Point, who contracted for an exclusive license to manufacture and sell an item for which the licensor had submitted a patent application, is not bound by a provision for prolonged royalty payments since the licensor abandoned the application[12] and no patent was ever obtained.[13]

The judgment of the district court is reversed and the case remanded for disposition consistent with this opinion.

LARSON, *Senior District Judge,* Dissenting.

I respectfully dissent.

The majority appears to acknowledge that the contract here was not conditioned on the issuance of a patent.[1] Yet it at-

11. Although the parties here did not expressly condition their agreement on the issuance of a patent, under the facts of this case and in view of our decision, we believe the result would be the same as in *Lear, Inc.* v. *Adkins, supra.*

12. It is interesting to note that Aronson abandoned her effort to get a patent in September of 1961, about six months after her husband applied for a patent on a similar device. He received a patent in 1964.

13. In view of our conclusion we need not reach Quick Point's contentions that the license was in restraint of trade and violated the federal antitrust laws, or that under Missouri law the license was not enforceable.

1. *See* footnote 11 of the majority opinion, *supra.*

tributes considerable importance to the fact that a patent application was "involved" and appears to hold that a private agreement which "involves" an abandoned patent application may not be enforced as a matter of federal policy.[2] Because that holding appears to be based on a characterization of the issues with which I disagree, I deem it necessary to discuss in some detail my understanding of the legal principles governing this case.

First, the nature of the contract between Quick Point and Aronson should be clarified. In retrospect, Quick Point made a bad bargain. It agreed to pay royalties on the Aronson invention as long as it continued to make and sell the same, and the agreement, as the district court found, had *no relation to whether or not the item was ever patented. Quick Point Pencil* v. *Aronson,* No. 75-1056C(1) (E. D. Mo., filed Dec. 29, 1976).[3] The parties no doubt intended that Aronson would in good faith attempt to patent the keyholder, but Quick Point nevertheless bound itself to pay even if those efforts failed. It should be emphasized that had the contract been *conditioned* on the issuance of a patent, it would have terminated long ago by its own terms. Similarly, had Aronson abandoned the application in bad faith while there was a reasonable likelihood of success with the Patent Office, Quick Point might very well have had a breach of contract remedy. But there is no indication whatsoever that Aronson exercised bad faith and one can only assume that the parties acquiesced in the 1961 Patent Office's determination that the invention was unpatentable or, at least, agreed that no further efforts were required.

2. *See* footnote 9 and text accompanying notes 12 and 13 of the majority opinion, *supra.*

3. The majority notes that had a patent issued Quick Point would have had to pay royalties only for the patent period, in light of *Brulotte* v. *Thys,* 379 U. S. 29 (1964). That is true, but in this context is relevant only to the patent misuse analogy that appellant appears to be drawing and which I have discussed at footnote 9, *infra.* It might also be pointed out that had a valid patent issued in 1961, when it was in fact denied, Quick Point would still be liable for royalties until 1978.

With the nature of the contract thus identified, and hypothetical possibilities set aside, the core of this controversy becomes clear: these parties entered into a trade-secret licensing agreement[4] that provided for payment of royalties for an indefinite time on an item that proved to be unpatentable and which others have now copied. One party now seeks to be released from its contractual obligation. Thus stated, this case is virtually on all fours with *Warner-Lambert Pharmaceutical Co. Inc.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd,* 280 F. 2d 197 (2d Cir. 1960). In *Warner-Lambert,* a manufacturer agreed to make payments to the discoverer of the formula for Listerine as long as it continued to manufacture the product. The formula eventually became public, after many years under the agreement, and Warner-Lambert sought release from the contract. The court upheld the agreement, and established the rule that "A license agreement with respect to a trade secret may last indefinitely and does not, in absence of express contrary language, terminate when the secret is disclosed." 2 Callman, *Unfair Competition and Trademarks* § 57(b) (3rd ed. 1968). This court must decide whether, in light of various federal policies expressed by the Supreme Court since the *Warner-Lambert* decision, the result on these facts should be different than it was in the Listerine controversy.[5]

4. The majority questions characterizing this agreement as a trade-secret licensing agreement, noting that the keyholder was a simple device and could be copied. The fact remains that the keyholder was secret at the time it was disclosed and it was not successfully copied until the late 1960's, long after it had been marketed. It is precisely because disclosure and marketing may lead to copying that parties will enter into express contracts extending payment obligations beyond the duration of secrecy. The question is whether such agreements are enforceable as a matter of contract law, not whether, absent an express agreement, trade secret law would afford protection once copying has occurred.

5. It should be noted that Quick Point did not argue on appeal that the contract was unenforceable under state law for being of infinite or uncertain duration. This subject was treated at length in

(Footnote continued on next page.)

Before reaching the issues that seem decisive here, some of appellant's argument should be addressed. Appellant recognizes the parallels between this case and *Warner-Lambert* but contends that the fact that a patent application was "involved" distinguishes this case and invokes certain policies expressed in *Lear, Inc.* v. *Adkins,* 395 U. S. 653 (1969). This contention is apparently what persuaded the majority to analyze the issues as it did, but I find appellant's arguments unpersuasive and a brief explanation may clarify my view that the "involvement" of a patent application has no bearing on the resolution of this case.

In the first part of the *Lear* decision the Supreme Court abolished the doctrine of patent licensee estoppel, 395 U. S. at 670-71. In the second portion of the opinion, upon which appellant relies here, the Supreme Court considered whether Adkins could claim contractual royalties for the entire patent period based on the pre-issuance disclosure of trade secrets:

> The inventor does not merely argue that since Lear obtained privileged access to his ideas before 1960, the company should be required to pay royalties accruing before 1960 regardless of the validity of the patent which ultimately issued. He also argues that since Lear obtained special benefits before 1960, it should also pay royalties during the entire patent period (1960-1977), without regard to the validity of the Patent Office's grant. We cannot accept so broad an argument. *Id.* at 672.

(Footnote continued from preceding page.)

Warner-Lambert Pharmaceutical Co., Inc. v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd,* 280 F. 2d 197 (2d Cir. 1960), and that court took into account Missouri law, which would probably govern the Quick Point contract. Although there is a canon of contract construction which provides that an obligor of a contract indefinite as to duration will be released from his duty after a reasonable time, *see Freeport Sulphur Co.* v. *Aetna Life Ins. Co.*, 206 F. 2d 8 (5th Cir. 1953), it is somewhat doubtful that that canon would apply here—Quick Point had within its power the ability to terminate the contract of its own accord by ceasing manufacture; it was also permitted to terminate if it became "dissatisfied" with the volume of sales.

Quick Point contends that there is no distinction between the situation in *Lear,* where a patent application is licensed, a patent issues, and the patent is then declared invalid and the situation here, where a patent application is licensed, and the Patent Office then refuses to issue a patent. In neither case should royalties based on disclosure of a trade secret be enforced.

But there is a clear distinction between the two situations which becomes readily apparent upon examining the major policy underpinning the Supreme Court's decision. The Court was wary of enforcing the claimed trade secret royalties in *Lear* because as a practical matter it would undercut the abolition of the licensee estoppel doctrine:

> Adkins' position would permit inventors to negotiate all important licenses during the lengthy period while their applications were still pending at the Patent Office, thereby disabling entirely all those who have the strongest incentive to show that a patent is worthless. 395 U. S. at 672.

In other words, if the trade secret disclosed in a licensing agreement coincided exactly with what was made public in the patent,[6] and the licensee was nevertheless bound to pay on the basis of the initial disclosure, he would have no incentive to challenge the patent itself—his obligation would remain the same whatever the patent's validity. The public would thus be deprived of an effective challenge to patentability and would go on "paying tribute to [a] would-be monopolist." *Id.* at 670. This policy of "unmuzzling" the licensee, and even giving him a positive incentive to challenge patent validity, is not implicated in the situation where no patent issues, and where in fact the secret disclosed must be regarded as unpatentable.[7] In ig-

6. The trade secrets that Adkins disclosed were precisely the same as those disclosed in the issued patent, *see Brief for Respondent Adkins* at 49-50. *See generally,* McCarthy, " 'Unmuzzling' the Patent Licensee: Chaos in the Wake of Lear v. Adkins," 45 Geo. Wash. L. Rev. 429 (1977).

7. For other cases in which the parties' express contract was not predicated on the issuance of a patent, but a patent application was

(Footnote continued on next page)

noring this policy, appellant has essentially construed *Lear* as calling into question the validity of *any* trade secret agreement.[8] In light of the Supreme Court's subsequent decision in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974), it is clear that *Lear* cannot be extended so far.

Kewanee was a trade secret misappropriation case in which the Supreme Court held that as a general rule state trade secret law is not incompatible with federal patent policy. More specifically, the Supreme Court implicitly approved the enforcement of trade secret licensing agreements:

> Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret * * *. Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would

(Footnote continued from preceding page.)

"involved" and the courts held that *Lear* did not govern the case, *see Wrigley* v. *Compudine Corp.*, 390 F. Supp. 478 (E. D. Pa. 1975); *Heltra Inc.* v. *Richen-Gemco, Inc.*, 395 F. Supp. 346 (1975), *rev'd on other grounds,* 191 U. S. P. Q. 663 (4th Cir. 1976).

8. Appellant's reading of *Lear* also relies on another portion of the opinion. The Supreme Court declined to decide whether Adkins could claim royalties accruing *before* 1960, the date when the patent issued, since "it squarely raises the question whether, and to what extent, the States may protect owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." 395 U. S. at 674. It is this portion of *Lear* which raised many questions as to the validity of state trade secret law in general; some of those questions were, of course, answered by *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974). Appellant claims that this passage in *Lear* means states cannot protect owners of unpatented inventions in *all* circumstances and the Quick Point-Aronson contract is one of them. It is self-evident that that argument assumes its own conclusion: analysis of underlying policies in *Kewanee* and other cases is the only way to determine whether the contract conflicts with federal law. *See* discussion at pages 77-82 of this opinion.

> tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance. 416 U. S. at 486-87 (citations omitted).

See also Painton & Co. v. *Bourns, Inc.*, 442 F. 2d 216 (2d Cir. 1971); *Sinclair* v. *Aquarius Electronics, Inc.*, 184 U.S.P.Q. 682 (Cal. Dist. Ct. of Appeal, 1st Dist., Div. Two, 1974). *Kewanee* thus limited the potentially broad implications of *Lear* that appellant urges and it is *Kewanee* rather than *Lear* to which this court should look for guidance in answering the question presently before it.

Appellant contends that this case is distinguishable from *Kewanee* because the trade secret disclosed is no longer secret. It is true that *Kewanee* dealt not with an express contract extending trade secret royalties beyond the duration of secrecy, but with the more typical misappropriation case in which there are inherent limitations upon the protection the trade secret owner receives. Absent an express contract, the owner's rights against even those who learned the secret from a confidential relationship end within a certain time after, for example, independent discovery by a third party, *see* 416 U. S. at 489-90. That is not to say, however, that duration is determinative in ascertaining whether trade secret law conflicts with patent law, for trade secret protection can last significantly longer than patent protection, as in the famous example of the long-secret formula for Coca-Cola. What the Supreme Court focused on in *Kewanee* was whether the existence of trade secret protection would provide a significant disincentive to patent, thereby impinging upon the congressional objective of encouraging pub-

lic disclosure of important inventions and keeping them in the public domain. *Id.* at 484. The Court concluded that whatever disincentives trade secret protection might provide were not significant enough to require federal preemption of the states' laws. The same type of analysis is helpful in deciding whether overriding federal policies require preemption of state contract law and a consequent refusal to enforce the Quick Point-Aronson bargain.

As to whether the contract here conflicts with the federal policy of leaving things in the public domain once they have become public, the answer seems obvious. Strangers to this contract have every right to copy the keyholder and they have done so. This distinguishes the situation from the problem involved by the enforcement of unfair competition laws faced in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964); *see Sinclair* v. *Aquarius Electronics, Inc. supra,* 184 U. S. P. Q. at 686. The more difficult question is whether the enforcement of contracts such as this creates a significant disincentive to patent because, by extending a right to royalties beyond the duration of secrecy, the trade secret licensor insulates himself from the *effects* of public disclosure. *See* 74 *Harvard L. Rev.* 409, 411 (1960). Since a patent royalty agreement cannot extend beyond the patent's expiration date, *Brulotte* v. *Thys,* 379 U. S. 29 (1964), the potential availability of a much longer royalty period through private agreement might make the latter alternative much more attractive.[9]

9. In addition to the danger that extended trade secret protection will cause a weakened incentive to patent, there may be another theory underlying this argument, namely, that freedom to contract should be circumscribed by a "trade secret misuse" doctrine just as it is circumscribed by the patent misuse doctrine expressed in *Brulotte* v. *Thys,* 379 U. S. 29 (1964). I think it unnecessary to discuss this theory in much detail; the patent misuse doctrine is to prevent a party from using his extraordinary legislative grant of exclusivity as leverage to extend the benefits he has obtained. The trade secret owner has no such leverage; he cannot guarantee his licensees freedom from encroachment by others. *See* Milgrim, *Trade Secrets,* § 6.05[2][d] (1977).

It would perhaps be sufficient for the purposes of this case to point out that the "disincentive" argument has little force where an unpatentable invention is involved, for there is no great federal interest in encouraging attempts to patent unpatentable subject matter, and only the slightest gain to be derived from increasing the number of applications on items of dubious patentability. *See Kewanee Oil Co.* v. *Bicron Corp., supra,* 416 U. S. at 484-89. But even from a broader point of view, the disincentive argument is not particularly compelling. Although a trade secret licensor might well prefer to obtain a private agreement ensuring royalties for an extended time rather than to license a patent for 17 years, licensees are most apt to think differently. In other words, it is from the perspective of the bargaining situation that the risk of deterrence from patent application must be assessed, and in most cases the value of patent protection will be important enough to the licensee that the trade secret owner would not be able to extract a contract of indefinite duration beyond the point of secrecy, when other parties can copy the item royalty-free. Even in the instant case, where Quick Point for whatever reason agreed to such a contract, there was nevertheless every incentive for Aronson to patent. Quick Point would have paid much higher royalties for the patent period and Aronson would not have run the risk that Quick Point would cease manufacture and leave her with an unsellable idea, already copied by others. A well-known advocate of trade secret protection has expressed the distinctions between the interests sought to be served by patent law and those served by trade secret law, and has discussed the very issue present in this case:

> [T]he license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated

or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.

* * * * *

> In light of these distinctions, and the effect that they have on the bargaining between the parties, it is my view that the rights and duties bargained for and embodied in the trade secret license should govern. If a trade secret licensee does not elect to condition continuing royalty on continuing secrecy, we may assume that the value of immediate disclosure weighed heavily. It is no more appropriate for a court of law, after the fact, to renegotiate a trade secret license agreement when the subject matter becomes generally known than it is for a court to set aside a contract to purchase a house * * * where the purchaser could have driven a better bargain. Thus, leaving the parties where their bargain has placed them in a trade secret licensing context is not inconsistent with holding that a patent licensor may not require royalties beyond the life of the patent. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U.L. Rev. 17, 30, 31 (1971).

See also Milgrim, *Trade Secrets,* § 6.05[2][d], §6.05[4] (1977); *Sinclair* v. *Aquarius Electronics, Inc., supra.* I find that analysis persuasive.

In summary, the contract here was negotiated at arms length. There is no evidence of misrepresentation, bad faith, or inequality of bargaining power. Quick Point had the opportunity to assess its risks and took a gamble and has called upon the court for relief because it did not like the results. I conclude that no federal patent policies bar the enforcement of the contract according to its terms. Moreover, although I do not dismiss the possibility that a trade secret license can run afoul of the Sherman Act, I find nothing in this record that establishes an unreasonable restraint of trade as a result of this agreement. Finally, appellant's argument that it should be

excused from performance because the purpose of the contract has been frustrated is wholly without merit.

I would affirm the district court.

A true copy.

Attest:

Clerk, U. S. Court of Appeals, Eighth Circuit.

JUDGMENT

UNITED STATES COURT OF APPEALS
For the Eighth Circuit

No. 77-1142. September Term, 1977

QUICK POINT PENCIL COMPANY,
Appellant,

vs.

JANE ARONSON,
Appellee.

Appeal from the United States District Court for the Eastern District of Missouri.

This Cause came on to be heard on the record from the United States District Court for the Eastern District of Missouri and was argued by counsel.

On Consideration Whereof, it is now here ordered and adjudged by this Court, that the judgment of the said District Court, in this cause, be, and the same is hereby, reversed.

And it is further ordered by this Court that this cause be and is hereby remanded to the said District Court for proceedings consistent with the majority opinion of this Court.

December 8, 1977

COSTS TAXED IN FAVOR OF APPELLANT

Taxation of costs in Case No. 77-1142:

Clerk's docketing fee:	$ 50.00
Costs of printing 5 copies of appendix:	$ 705.04
Costs of printing 10 copies of appellant's brief:	$ 429.59
Total costs of Appellant for recovery in the U. S. District Court from Appellee:	$1,184.63

UNITED STATES COURT OF APPEALS
For the Eighth Circuit

September Term, 1977

77-1142

QUICK POINT PENCIL COMPANY
Appellant,

vs.

JANE ARONSON,
Appellee.

Appeal from the United States District Court for the Eastern District of Missouri

The Court having considered petition for rehearing en banc filed by counsel for appellee and, being fully advised in the premises, it is ordered that the petition for rehearing en banc be, and it is hereby, denied.

Considering the petition for rehearing en banc as a petition for rehearing, it is ordered that the petition for rehearing also be, and it is hereby, denied.

January 4, 1978

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1977

77-
No. 1413

JANE ARONSON (Formerly Known as Jane Leopoldi),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY, a Missouri Corporation,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

WALTER M. CLARK
FRED LEICHT, JR.
WILLIAM J. TRAVIS
611 Olive Street—Suite 1950
St. Louis, Missouri 63101
(314) 621-5070
Attorneys for Respondent

Of Counsel
ARMSTRONG, TEASDALE,
KRAMER & VAUGHAN

St. Louis Law Printing Co., Inc., 812 Olive Street 63101 314-231-4477

TABLE OF CONTENTS

Table of Authorities

Cases

Other Authorities

IN THE

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BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

The decision in this case simply held that Respondent Quick Point, a patent licensee, was not bound to pay royalties indefinitely into the future for the manufacture and sale of an item described in a patent application which was abandoned 17 years ago by the licensor (Petitioner Aronson), and which unpatented item is being freely manufactured and sold by Quick Point's competitors. The case does not present any new issue to warrant the attention of our nation's highest court.

The petition for certiorari should be denied.

STATEMENT OF THE CASE

Petitioner Aronson's Statement of Facts is generally accurate and fairly complete, with a few exceptions. The following additions and modifications serve to emphasize the critical importance of the particular facts of this case to the decision reached by the Eighth Circuit.

1. The license agreement, which purported to give Quick Point the exclusive right to make and sell keyholders of the type shown in Aronson's patent application, also referred to the possibility of patent infringement and resulting litigation (App. A31). The license agreement contains no provisions concerning confidentiality or disclosure (App. A30).

2. On April 4, 1961, Aronson's agent and former husband, Leopoldi, filed a patent application, Serial No. 104496, concerning a similar keyholder device (App. A25). About six months later, in September, 1961, Aronson abandoned the patent application on the keyholder at issue (App. A27). After Leopoldi obtained a patent on his own keyholder in 1964, he attempted to license that patent to Quick Point (App. A44).

3. Petitioner has obtained royalties in the amount of $203,-963.84 from Quick Point under the keyholder license (App. A26).

4. In the late 1960's, certain keyholders substantially identical to that exclusively licensed by petitioner to Quick Point, began appearing on the market, and in the 1970's the competition in the keyholder market grew and continues to grow (App. A27). Quick Point's competitors sell these keyholders in competition with Quick Point (App. A28). While Quick Point's gross sales of the keyholders have generally increased since 1956, the market for the keyholders has expanded at a much greater rate, and Quick Point's percentage of the market has decreased since 1956 (App. A45-46). Quick Point's competitors

do not pay royalties on the identical keyholders manufactured by them (Finding of Fact No. 9, App. A22, A46). The royalty payments add to Quick Point's cost, making it more difficult for Quick Point to compete in the keyholder market (App. A46).

5. In its judgment of December 29, 1976, the District Court ordered Quick Point "to pay to [petitioner] the monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter with interest at the rate of 6 percent per annum" (App. A20). The Court did not establish any limitation upon Quick Point's continuing liability.

6. The Court of Appeals found that Quick Point "contracted for an exclusive license to manufacture and sell an item for which the licensor had submitted a patent application", and that "the parties entered into a contract anticipating that a patent would issue" (App. A8).

QUESTION PRESENTED

Under the facts involved, and applying established legal principles, may the licensor (Petitioner Aronson) force Quick Point as a licensee, to pay royalties indefinitely into the future on the license of a patent application, where the licensor has abandoned the patent application subsequent to the date of the license, where the subject matter of the license is not a trade secret, and where the licensee's competitors are freely manufacturing the unpatented item?

REASONS FOR NOT GRANTING THE WRIT

I. The Eighth Circuit's Decision Merely Follows the Previous Enunciations of the Supreme Court With Respect to the Enforceability of Contractual Royalties for the Use of Invalid or Expired Patents, and Applies Those Principles to the Facts of This Case. Since the Law Is Clear in This Area, the Facts of This Case Do Not Warrant Re-evaluation of Those Well-Established Principles.

In an apparent attempt to attract this Court's attention, it is not surprising that petitioner has greatly exaggerated and distorted the Eighth Circuit's ruling.[1] The Court of Appeals merely reaffirmed and applied a line of relatively recent Supreme Court cases in this field to the facts of this case.

First, and most important of these cases, is *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). There, the plaintiff inventor filed a patent application for a gyroscope in 1954, and licensed the invention covered by his patent application to the defendant, Lear, Inc. one year later, in 1955. As in the present case, Lear, Inc. was to pay royalties on the invention. In 1957, after the patent application had been rejected twice, but while the application was still pending, Lear, Inc. announced that it would stop paying royalties. In 1960, the inventor obtained his patent, and sued Lear, Inc. for royalties. Lear defended on the grounds that the patent was invalid. The California courts enforced the royalty agreement, holding that under the applicable state law of contracts, a licensee is estopped, by his own contract, to contest the validity of the licensed patent.

This Court reversed the state court judgment, and remanded the case. Justice Harlan's opinion held:

[1] The ruling clearly does *not* invalidate licenses of trade secrets or pending patent applications. This is discussed under Point III, *infra*.

1. The state law of contracts, as applied to estop a licensee from contesting the validity of a patent, is in violation of federal patent policy (all 9 justices so held); and

2. If Lear could prove the patent's invalidity on remand, the inventor could not enforce the royalty payments on the invention for the period after the patent's issuance, in spite of the apparent contractual obligation to pay such royalties (7 justices so held).

In the second portion of its opinion in *Lear*, this Court gave approval to the already well established principle that patent licensees may avoid further royalty payments, regardless of their contract, once a patent is shown to be invalid. For this proposition, the Court cited *Drackett Chemical Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933). 395 U.S. at 667. In the present case, the Eighth Circuit Court of Appeals correctly held that the principles enunciated in the second portion of the *Lear* opinion apply directly to the facts of this case, where the licensor abandoned the patent application, and Quick Point's competitors are freely manufacturing the licensed item. Clearly, there is no valid distinction for purposes of application of the *Lear* doctrine between the invalid patent in *Lear* and the abandoned patent here.

The Eighth Circuit further relied upon the principle, enunciated in both *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), that under federal law, all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. This principle was reaffirmed in *Lear*, 395 U.S. at 656. Because petitioner's keyholder is in general circulation and petitioner abandoned the patent application on the keyholder, the Court of Appeals, applying the established law, naturally concluded that the keyholder license is not entitled to federal or state protection.

A fourth Supreme Court decision which provided guidance to the Eighth Circuit in this area is *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). There this Court held that a licensee cannot be forced to pay royalties beyond the expiration date of a patent, and a royalty agreement to the contrary is invalid *per se*.

Finally, the Eighth Circuit cited *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), where it was held that state trade secret laws may be used to enjoin the misappropriation of a *true* trade secret, even though the invention is not actually patented. Significantly, as discussed in greater detail under Point III, *infra*, the Court of Appeals here found that petitioner's invention is not a true trade secret. Obviously, the controlling facts of the present case were considered as very important to the Eighth Circuit's ultimate decision based upon existing Supreme Court cases.

Indeed, in her Petition for Rehearing En Banc in the Court of Appeals, petitioner recognized that the Eighth Circuit's decision is based upon application of the above mentioned Supreme Court decisions in the patent field. Petitioner stated:

> "The decision, therefore, is based on an extension of the now well established principle that federal law requires all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. It also is an extension of the principle established in *Sears, supra*, and *Compco, supra*, that no state by its law of unfair competition can prevent the copying of an article which is not protected by a valid patent. The Court further states that it finds support for its extension of these principles to a state's contract law as well as to the state unfair competition law in *Lear, supra*." (Petition for Rehearing En Banc, p. 4).

Petitioner further indicated that the Court of Appeals' decision rested largely upon the particular facts of this case:

> "In any event, whether the Court is right or wrong in extending these principles to a state's contract law, whether a patent application is involved or not, the Court *erroneously interpreted the facts in this case and misapprehended the applicability of these principles to the keyholder* which is the subject matter of the contract in issue." (*Id.*, p.4) (emphasis added).

Since, by petitioner's own admission, the judgment below rested to such a large degree upon purely factual determinations, there can be no widespread interest in the matter at issue, nor a need for amplification by this Court. The well established patent principles, as recognized by petitioner, retain their validity. The Petition for a Writ of Certiorari should be denied!

II. The Eighth Circuit's Decision Is Not in Conflict With the Decisions of Any Other Circuit.

In an attempt to conjure up a nonexistent "conflict in the circuits," petitioner has cited *Warner-Lambert Pharmaceutical Co., Inc. v. John J. Reynolds, Inc.*, 178 F.Supp. 655 (S.D. N.Y. 1959), *aff'd without opinion* at 280 F.2d 197 (2d Cir. 1960).[2] But petitioner has chosen to gloss over the major factual distinctions between these two cases.

First, there was *no patent or patent application* at issue in *Warner-Lambert*, whereas the present controversy concerns the purportedly exclusive license of a patent application. Petitioner conveniently tries to ignore this fact, but the inconsistency in her position was noted in the Court of Appeals' opinion: "[Petitioner] applied for a patent, contracted with regard to that patent

[2] The 1959 Southern District of New York decision in *Warner-Lambert* antedates the four above mentioned Supreme Court decisions of *Lear* (1969), *Sears* (1964), *Compco* (1964) and *Brulotte* (1964), which were relied upon by the Eighth Circuit in this case.

application, and cannot now argue that patent law principles are irrelevant to this case" (App. A7-8, footnotes omitted).

Second, the licensed article in *Warner-Lambert* was the secret formula for "Listerine", an antiseptic liquid medicine. Apparently, the formula could not readily be copied upon sale of the product because the formula remained secret from the date of the license is 1881 until either 1905 or 1931. 178 F.Supp. at 667. Petitioner's keyholder, on the other hand, could be copied immediately once it was marketed in 1956, and is presently being manufactured by Quick Point's competitors. The keyholder is not a trade secret, as such, within the meaning of RESTATEMENT OF TORTS § 757, comment b, *infra*.

Further demonstration of the lack of conflict between the present case and *Warner-Lambert* may be gleaned from the New York District Court's recognition of the long standing principle that the licensee of an invalid patent is not obliged to pay contractual royalties, state contract law notwithstanding. 178 F.Supp. 664-665. In support of this proposition, the District Court cited *Drackett Chemical Co. v. Chamberlin Co., supra*, relied upon by this Court in *Lear v. Adkins*. Since patent considerations are clearly involved in the present case, the license agreement at issue falls within the scope of *Drackett*, as noted with approval in *Warner-Lambert*. Thus, the Eighth Circuit's decision, which applied this same principle, is entirely consistent with *Warner-Lambert*.

Arguing for an alleged "conflict in the circuits", petitioner also relies upon the State case of *Sinclair v. Aquarius Electronics, Inc.*, 42 Cal. App. 3d 216, 116 Cal. Rptr. 654, 184 U.S.P.Q. 682 (1974). There, as in *Warner-Lambert*, the inventor had never sought federal patent protection for the licensed article. In *Sinclair*, the invention was a device which converted brain waves into audible form. After inducing the inventor not to apply for a patent on the device, the licensee

attempted to pirate the invention by filing a design patent application for a very similar device incorporating the inventor's idea. Of course, the California State Court held that in the peculiar circumstances of the case, the licensee would be estopped from asserting the unenforceability of the royalty provisions of the license. Thus, *Sinclair* involved entirely different facts and issues from the present case.

In a further attempt to conjure up a non-existent "conflict in the circuits", petitioner has cited *Wrigley v. Compudyne Corp.*, 390 F. Supp. 478 (E.D. Pa. 1975) and *Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp. 346 (D.S.C. 1975), *rev'd on other grounds*, 540 F.2d 1235 (4th Cir. 1976). Neither of these cases conflicts with the Eighth Circuit's decision in the pending case. In *Wrigley*, the plaintiff inventor sued to recover past royalties due under the license of a patent application. The application was rejected at first but, upon amendment, a patent was issued. However, the defendant terminated the license agreement before the patent was issued and refused to pay royalties under the license while the patent application was pending.

It is *not* true, as alleged by petitioner, that the District Court in *Wrigley* held that *Lear, Inc. v. Adkins, supra*, is inapplicable to a suit for royalties on a license agreement involving a rejected patent application. The Pennsylvania District Court merely noted that the enforceability of royalties during the *pendency* of a patent application was left unresolved by *Lear*. 390 F.Supp. at 479. The Pennsylvania District Court also dismissed a counterclaim to declare the patent invalid, because the license had been terminated three years before the patent was issued and the patent's validity was therefore irrelevant. Here, because petitioner has abandoned the keyholder application, the present case does not involve any issue concerning 1) the enforceability of royalties under a *pending* patent application, or 2) the validity of a patent. Quick Point does not

contest its past royalty payments before or after the abandonment of the patent application, and this was not a suit for a refund. *Wrigley* is clearly not applicable, nor inconsistent with the present case.

The *Heltra* case is even further afield. There, the plaintiff *sold* a patent application and a certain apparatus to the defendant purchaser in return for payments characterized in the contract as "royalties". After the sale, a patent was issued on the application. When the plaintiff-seller sued the purchaser for his failure to pay the "royalties", the purchaser argued that *if* the patent is invalid he is not obligated to pay "royalties", citing *Lear*. *Lear* was held to be inapplicable because "unlike the situation in *Lear*, this case does not involve a licensor-licensee relationship", 395 F.Supp. at 351. As for the "royalties" the South Carolina District Court stated:

> While the word "royalties" is used, it is clear that these payments are no more than installment payments in consideration for plaintiff's conveyance of the apparatus, tools, drawings, parts and patent application. 395 F.Supp. at 352.

Thus *Heltra* is inapplicable to the present case, where Quick Point is a licensee and petitioner is a licensor. Upon review and analysis, the cases cited by petitioner clearly fail to reveal any "conflict of the circuits."

III. The Eighth Circuit's Decision, Holding That the Licensee of a Patent Application May Cease Paying Contractual Royalties After the Application Has Been Finally Abandoned, Does Not Affect the Enforceability of Trade Secret Licenses or Licenses of Pending Patent Applications.

In connection with her third point, petitioner has again mustered parade of alleged terribles to dramatize the purported impact of the Eighth Circuit's decision.

First, it is improperly alleged that the ruling will overturn every trade secret licensing agreement. This gross hyperbole totally ignores the facts of this case. The Eighth Circuit correctly pointed out that no trade secret was involved:

> We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an 'invention', it was a relatively simple device and once marketed, it was completely disclosed. See, RESTATEMENT OF TORTS § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be his secret.") App. A4, n. 5

Moreover, petitioner omits to state that she did not rely on trade secret protection when the patent application was filed in 1955, some 23 years ago, whereby petitioner sought to obtain a 17 year federal monopoly on the invention. Although the patent application was ultimately abandoned by petitioner, she has already obtained 19 years of royalties in excess of $200,000 from 1956 to 1975. By abandoning the patent application, petitioner sought to prolong the royalty payments indefinitely beyond the time when the patent, if issued, would have expired.

Second, petitioner incorrectly alleges that the Eighth Circuit's ruling renders unenforceable every license of a pending patent application. No such issue was even raised, much less decided, by the present lawsuit. During the period from 1956 to 1961, when petitioner's patent application was pending, Quick Point paid all royalties under the license: Quick Point has never contested such payments. There is absolutely nothing in the Eighth Circuit's opinion which remotely concerns the enforceability of royalties during the pendency of a patent application. This issue is purely imaginary.

Unlike the present case, *Kewanee Oil Co. v. Bicron Corp.*, *supra*, was an action in tort seeking injunctive relief and damages

for the misappropriation of trade secrets. No patent, patent application, license or royalty agreement was involved. This Court held that the District Court properly applied Ohio trade secret law by enjoining the defendants' disclosure or use of certain trade secrets "until such time as the trade secrets had been released to the public, had otherwise generally become available to the public, or had been obtained by [defendants] from sources having the legal right to convey the information." 416 U.S. at 473-474.

The present case involves neither a misappropriation nor a true trade secret. On the contrary, the contractual license of a patent application is involved, there is no non-disclosure agreement, and the subject invention is in the public domain, being freely copied, manufactured and sold by Quick Point's competitors (Finding of Fact No. 9, App. A22, A28). The Court of Appeals' decision in this case will have no effect upon the Missouri law of trade secrets and misappropriation, as set forth in *Carboline Co. v. Jarboe*, 454 S.W.2d 540 (Mo. 1970). There is nothing in the Court's ruling which would in any way prevent the states from enjoining the misappropriation of a bona fide trade secret.

CONCLUSION

The Supreme Court has already established definite guidelines in the area of patent law applicable here. The Eighth Circuit merely applied those well established principles to the facts of this case. Nor is there any conflict in the circuits. Further, the keyholder at issue is not a trade secret, this is not a misappropriation case, and no significant new policy consideration is involved. Therefore, it is respectfully submitted that the petition for a writ of certiorari should be denied.

Respectfully submitted,

WALTER M. CLARK

FRED LEICHT, JR.

WILLIAM J. TRAVIS
611Olive—Suite 1950
St. Louis, Missouri 63101
(314) 621-5070
Attorneys for Respondent

Of Counsel

ARMSTRONG, TEASDALE,
KRAMER & VAUGHAN

IN THE

Supreme Court of the United States

OCTOBER TERM, 1977.

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY, A MISSOURI CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

REPLY BRIEF FOR THE PETITIONER.

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
CHADWELL, KAYSER, RUGGLES, McGEE & HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL, GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

MARK T. KEANEY
LEWIS, RICE, TUCKER, ALLEN & CHUB
1400 Railway Exchange Building
611 Olive Street
St. Louis, Missouri 63101
(314) 231-5833

Gunthorp-Warren Printing Company, Chicago • Financial 6-6565

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REPLY BRIEF FOR THE PETITIONER.

In its brief in opposition to the petition for certiorari respondent understandably argues that this case raises no important issue. The fact is that the decision below, unless reversed, will be relied on in the future for the proposition that any contract calling for continuing payments upon the manufacture of an article or the use of a process or other idea is unenforceable unless (1) there is an existing patent, or (2) the subject of the agreement (*i.e.*, the article, process or idea) remains secret. That is the holding of the Eighth Circuit and it raises an important issue that will have significant impact on existing and future agreements involving many ideas in many circumstances.

In an attempt to cast this case as *sui generis* respondent asserts that the Eighth Circuit's decision will have no effect on the enforceability of trade secret licenses or on licenses of pending patent applications. Yet it is obvious that under this decision a licensee of a patent application is free not to pay royalties if the sale of the article discloses the subject matter of the application. Similarly, once the subject matter of a trade secret license becomes public the license is unenforceable under this decision.*

Respondent argues that the presence of the patent application here distinguishes this case from *Warner-Lambert*. However, respondent never explains how the presence of a patent application justifies a result different from that in *Warner-Lambert*, much less how normal state contract law conflicts with federal patent law when a patent application is involved but does not where none was ever filed. If the holding of the Eighth Circuit were that the contract here is invalid because there was a patent application but would have been enforceable if no patent application had been filed, the result would surely be anomalous since it would discourage the filing of patent applications. Such a result is not only inconsistent with the aims of the patent law but in fact directly conflicts with the congressional policy of encouraging patent applications.

Respondent cites a number of cases but nowhere deals with the real issue in this case—does the enforcement of this contract so conflict with federal patent law as to justify federal interference with the normal operation of state law? Indeed, respondent's brief is most noteworthy for what it fails to do

* Respondent asserts that the keyring involved here was not a trade secret. Once the keyring was on public sale it was not a trade secret, because the sale fully disclosed the idea. But there can be no doubt that prior to its first sale it *was* a secret. The uncontested fact is that the keyring was secret prior to the agreement with Quick Point; that it had not been disclosed to others except under conditions of confidence; and that it was disclosed to Quick Point under an obligation of confidence (App. A43). Of course, it is common for inventors to obtain a consideration in return for disclosure of a secret design even though once the article is put on sale, it is no longer secret.

rather than what it attempts to do. Respondent makes no attempt to respond to the fact that this Court held in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470, 479-80 (1974), that normal operation of state law should be interfered with *only* if its enforcement would conflict with federal patent law. Respondent also ignores this Court's holding in *Kewanee* that in determining whether there is a conflict with federal patent law it is imperative to examine the purposes of the patent law and then to determine whether the enforcement of state law will interfere or conflict with those purposes. As pointed out in the petition, the purposes of the federal patent law are to encourage invention and to encourage disclosure of those inventions to the public which stimulates further invention. Enforcement of the contract here in no way interferes or conflicts with those purposes. That fact was ignored by the court of appeals and also by respondent in its brief.

The majority below failed to follow the principles so clearly established by this Court in deciding cases involving conflicts between state law and federal patent law. In so doing the Eighth Circuit unnecessarily created doubt and confusion with respect to myriad commercial relationships which not only are quite common in our economy but are especially beneficial and vital to small inventors. This Court should grant review of this case and resolve this important issue.

Petitioner respectfully repeats her request that this Court grant the petition for certiorari.

Respectfully submitted,

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
CHADWELL, KAYSER,
RUGGLES, McGEE &
HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL,
GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

MARK T. KEANEY
LEWIS, RICE, TUCKER,
ALLEN & CHUB
1400 Railway Exchange
Building
611 Olive Street
St. Louis, Missouri 63101
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C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
ROBERT S. ROBIN
CHADWELL, KAYSER, RUGGLES,
McGEE & HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL,
GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

J. THOMAS McCARTHY
University of San Francisco
School of Law
San Francisco, California 94117

Gunthorp-Warren Printing Company, Chicago • Financial 6-6565

TABLE OF CONTENTS

Table of Authorities

Cases

Texts

Constitution and Statutes

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Eighth Circuit is reported at 567 F.2d 757, and is printed in the Appendix at page 66. The Findings of Fact and Conclusions of Law of the United States District Court for the Eastern District of Missouri, Eastern Division, are reported at 425 F. Supp. 600, and printed in the Appendix at page 61. The District Court did not render a separate opinion.

JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit was entered on December 8, 1977 (App. 84). Petitioner's timely filed petition for rehearing was denied January 4, 1978 (App.

85). The Petition for writ of certiorari was filed on April 4, 1978, and was granted on June 5, 1978. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

QUESTION PRESENTED

Does federal patent law preempt state contract law and prevent enforcement of an agreement calling for continuing payments upon the manufacture of an article any time the article which is the subject of the agreement ceases to be secret and is not covered by a valid patent?

More specifically, does an agreement valid under state contract law by which an inventor discloses a secret and previously unknown article for purposes of having it manufactured, in return for the manufacturer's promise to make payments as long as it sells the article, conflict with the patent law simply because the article is not patentable and the sale of it by the manufacturer makes it known to the public?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

CONSTITUTION OF THE UNITED STATES:

Article I, Section 8, Clause 8.

The Congress shall have Power . . .

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

Article VI, second paragraph.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

STATUTES:

35 U. S. C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

STATEMENT OF THE CASE

In June, 1956, Petitioner Aronson and her agent, Norbert Leopoldi, went to the offices of Respondent Quick Point Pencil Company in St. Louis, Missouri, and met with Quick Point's president, G. A. Goessling (since deceased). Under an obligation of confidence, they disclosed to Goessling the design of a keyholder which was then not publicly known but which was described in a patent application which had been filed by Aronson on October 25, 1955 (App. 17, 18, 55). At the close of the negotiating session, Goessling set forth a proposed license agreement in a letter to Aronson, dated June 26, 1956 (App. 17). The letter provided that Quick Point "will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677", that Quick Point would "start manufacturing within 60 days after you indicate your acceptance of the following terms" and that "the royalty rate will be five percent of our selling price . . . on all keyholders which we make in accordance with the design shown in your application" (App. 23).

Upon receipt of the letter, Aronson, through Leopoldi, telephoned Goessling and an addendum to Goessling's proposal was prepared and signed and became a part of the agreement (App. 17). That addendum provided that "In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane [Aronson] two and one-half percent (2½%) of

sales, at selling prices, as long as you continue to sell same" (App. 25).

In July, 1956, Quick Point began manufacturing the keyholders (App. 18), and continues to manufacture them today (App. 21).

Patent application No. 542677 was finally rejected by the Patent Office Board of Appeals on September 27, 1961, and was thereafter abandoned (App. 20). Even though Quick Point knew of the rejection and abandonment of the patent application, it continued to pay royalties (App. 19).

In 1961, while the patent application was still pending, a dispute arose between the parties concerning whether Leopoldi was prevented by the Aronson-Quick Point agreement from licensing another keyholder covered by another patent application to someone other than Quick Point (App. 56). In connection with that dispute, Quick Point's patent lawyer wrote a letter to Aronson:

> "We remind you that your license agreement is in respect of the disclosure of said Jane [Aronson] application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane [Aronson] application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. 39).

The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and, in fact, by the late 1960's, others had copied it and were selling similar keyholders in competition with Quick Point (App. 20).

Quick Point paid Aronson five percent of its sales until June 26, 1961. On that date, five years after the date of the agreement, the payments were reduced to two and one-half percent, in accordance with the contract (App. 18), and Quick Point continued to pay Aronson two and one-half percent of its sales until October 1, 1975 (App. 19).

On November 18, 1975, Quick Point brought this action for a declaratory judgment that it has no further liability to make

payments under its agreement with Aronson. Jurisdiction of the district court was based upon diversity of citizenship, 28 U. S. C. § 1332. The complaint alleged that the license agreement between Quick Point and Aronson was unenforceable because it conflicted with Article I, Section 8, Clause 8 of the United States Constitution by providing for royalty payments on an unpatented and unpatentable article. The complaint also alleged that the agreement was void, invalid and unenforceable as a restraint of trade and indefinite, uncertain and ambiguous with respect to its terms.

The parties waived a trial and the matter was decided by the district court on a record consisting of a stipulation of uncontested facts and affidavits in support of cross-motions for summary judgment (App. 59). The district court concluded that the contract is valid and enforceable and obligates Quick Point to continue paying the agreed amounts so long as Quick Point continues to make and sell the keyholder which is the subject of the contract.

Quick Point appealed to the United States Court of Appeals for the Eighth Circuit. In a two-to-one decision, the court reversed the district court and held that the principles embodied in federal patent law preclude Quick Point's being bound by the contract's royalty provisions because Aronson abandoned the patent application, no patent was ever obtained on the keyholder and it had become publicly known. Senior District Judge Larson, sitting by designation, argued in dissent that the case should be governed solely by state contract law, that the mere existence of a patent application could not require, as a matter of federal policy, that the royalty obligation cease once the patent application was abandoned, and that the majority decision irreconcilably conflicted with *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960).

SUMMARY OF ARGUMENT

This is a simple contract case in which the district court, applying state contract law, enforced the agreement of the parties and refused to find any conflict with federal patent policy. The majority of the court of appeals, however, in its rush to dissolve the contract, disregarded the district court, ignored the voice of the dissent, and closed its eyes and ears to the pronouncements of this Court as to what federal patent policy *is* and how conflicts between that policy and state law are to be evaluated.

The most egregious error of the majority below was its failure to adhere to *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974), where the Court set forth the test to be applied in determining whether state law should be preempted by federal patent law. This Court held that federal patent law preempts only that state law which stands as an obstacle to the accomplishments of the objectives of the federal patent law. Those objectives are two-fold: the encouragement of invention and the public disclosure of inventions through patenting.

Under *Kewanee* the issue in this case is whether the enforcement of the contract impermissibly conflicts with the objectives of the federal patent law. Enforcement of the state-created rights in this contract will discourage neither invention nor public disclosure of inventions. In fact, the opposite is true. The opportunity to obtain continuing royalties on an invention, whether or not it is ultimately patentable or can be kept secret, is an important economic incentive, particularly for private and small inventors. The majority has severely limited that contract right and thus discouraged invention and disclosure. Enforcement of state contract law here is wholly consistent with federal patent policy and no reason exists for a federal court to preempt that law. The decision of the court of appeals thus constitutes an unnecessary incursion into state law.

Not only did the majority below fail even to consider, much less apply, the preemption test enunciated in *Kewanee*, it also based its decision upon a misreading of several prior decisions of this Court: *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964), *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964) and *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969).

In *Sears* and *Compco* the issue was whether a state's unfair competition law could be permitted to give an inventor a monopoly even though the patent on his invention was declared invalid. Neither case involved the question of enforcement of a private contract. In both, a contrary decision would have given the inventor a monopoly prohibiting the public from copying a publicly disclosed device. The Court concluded that the state unfair competition law clashed with the objectives of the federal patent laws because it gave the inventor a monopoly equivalent to that granted by a federal patent without meeting the rigid standards of invention established by Congress in the patent law. Here, no monopoly is granted to anyone; no right to exclude the public is sought.

Brulotte similarly supports enforcement of the contract because the Court there carefully pointed out that the case was not like one in which non-patented articles are involved. The rationale of *Brulotte*, that a patentee may not misuse or attempt to expand the patent monopoly granted him is inapplicable here where neither the inventor nor her licensee has exclusivity and neither may resort to the courts to obtain it. Aronson has taken nothing from the public which possibly justifies taking from her the right the state says she has under normal contract law.

Lear v. *Adkins* expressly left open the question decided by the court of appeals here. *Lear* did decide that the doctrine of licensee estoppel prevented or discouraged challenges to the validity of a licensed patent by the licensee and thus conflicted with the federal policy of encouraging challenges to invalid patents. That policy has no application here because there is no

patent involved. There was a patent application, but it took nothing from the public and gave Aronson no monopoly or right to exclude others from the use of her invention. The mere existence of a secret patent application raises no issue of federal preemption, does not mean enforcement of this contract conflicts with the objectives of federal patent law, and certainly does not justify the drastic step of striking down state contract law.

Nothing in these cases supports the conclusion that state contract law should be preempted to preclude enforcement of the state-created rights in this contract or that contracts relating to ideas that subsequently come into general circulation are invalid. The decision below amounts to a reversion to the discredited doctrine that the patent law is exclusive—a doctrine soundly rejected by this Court in *Kewanee.*

The decision below is also contrary to the great weight of federal and state authority. The leading case upholding a license agreement involving an unpatented idea which later becomes public is *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F.Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960). That case is on all fours with this case and reached a diametrically opposite result. It is clearly the better-reasoned authority.

Since the decision below is that any contract conveying a secret idea in return for continuing payments is invalid once the idea becomes public if not covered by a valid patent, it imperils a large volume of business transactions involving the licensing of ideas which can neither be patented nor kept secret. Such drastic consequences are in no way required by the patent law and do not attain any objective sought by the Congress in establishing the federal patent system. Furthermore, the court of appeals ignored this Court's warnings that caution should be used in striking down private contracts on grounds of public policy and that federal courts should not interfere with the enforcement of state-created contractual rights unless a conflict with federal patent policy is both unquestioned and sig-

nificant. Here the conflict is not merely insignificant, it is nonexistent.

Finally, by the contract here, Quick Point gained access to Aronson's invention, thus receiving an invaluable head start in making and selling it. When this contract was signed in 1956, neither Quick Point nor Aronson could know that the invention would sell as well or for as long as it has. Had the device been unsuccessful Aronson would have received little, and this case would not even be here. But the device *was* successful and that fact should not permit Quick Point to deny Aronson the participation in that success it promised her. There is no reason for the federal courts to intrude into the normal application of state law in this case. To do so not only conflicts with the very policy of the federal patent law the courts should be fostering but also results in a manifest injustice for Jane Aronson in particular and for all small inventors generally.

ARGUMENT

I. The Decision Below Represents an Unwarranted Incursion Into State Law Which Is Not Required by Federal Patent Law.

The district court below held this case should be governed by state contract principles and that there was no reason under federal patent law for the federal courts to interfere with the ordinary application of state law. The majority in the court of appeals below rejected that conclusion holding that enforcement of the contract "would undermine the strong federal policy favoring the full and free use of ideas in the public domain" (App. 71). The court of appeals held that since Aronson abandoned her efforts to obtain a patent on the keyholder and Quick Point's manufacture and sale of the keyholder meant that it was no longer secret, the policy of the federal patent law preempted state contract law and relieved Quick Point of its liability to pay royalties in accordance with the agreement.

The effect of the decision of the majority below is that a contract calling for the payment of royalties upon the manufacture of an article (or the use of a process or any other form of idea or invention) is valid and binding upon the manufacturer only (a) if there is an existing patent, or (b) so long as the article remains a secret. Under this decision, any time the article becomes known to others and there is no patent which would entitle its inventor to exclude the public from making, using or selling it, the manufacturer under a contract—no matter how explicit its language to the contrary may be—is free to make the article without payment of the contracted-for royalties.

This unnecessary interference with the ordinary application of state contract law was erroneous because (a) this Court held in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974), that federal patent law preempts only that state law which stands as an obstacle to the accomplishment of the objectives of the federal law; (b) the majority of the court of appeals failed entirely to apply the test of preemption enunciated in *Kewanee;* and (c) application of that test leads inescapably to the conclusion that enforcement of the state-created rights in the contract will not in any way conflict with the objectives of the federal patent law.

A. Federal Patent Law Preempts Only That State Law Which Stands as an Obstacle to the Accomplishment of the Objectives of the Federal Law.

This Court had occasion in *Kewanee Oil Co.* v. *Bicron Corp.*, *supra,* to consider in detail the constitutional underpinning and policy embodied in the federal patent law. In that case, the petitioner had brought an action seeking injunctive relief and damages for misappropriation of trade secrets by former employees. The trade secrets involved were patentable subject matter but had been in commercial use for more than one year and were therefore unpatentable. The district court, applying Ohio trade secret law, permanently enjoined the disclosure or

use of certain of the trade secrets. The court of appeals reversed based on its determination that the Ohio trade secret law was in conflict with federal patent law. This Court granted review to determine whether state trade secret protection is preempted by operation of federal patent law. 416 U. S. at 472. The Court held that it is not so preempted.

The Court first explored the differences between trade secrets and patents. The protection accorded a trade secret is against those to whom the secret has been disclosed in confidence or who gain knowledge of it by improper means (*e.g.*, theft). There is no protection against independent discovery, accidental disclosure, or "reverse engineering", *i.e.*, starting with the known product and working backward to divine the trade secret. On the other hand, those inventions meeting the standards of the patent law and which are granted a patent receive a 17-year "right of exclusion" (416 U. S. at 478) which prohibits anyone else from copying the invention or independently creating it.

The Court held that the states are *not* forbidden to act in the area of protection of intellectual property, relying on its decision in *Goldstein* v. *California*, 412 U. S. 546 (1973), where it held that the power granted Congress by Article I, § 8, cl. 8 to secure exclusive rights to writings and discoveries of authors and inventors is not an exclusive grant. In *Kewanee* the Court found that under the Constitution the states may regulate with respect to discoveries so long as they do not conflict with the operation of laws passed by Congress in this area. 416 U. S. at 479.

Determining whether such a conflict exists, the Court said, "involves a consideration of whether that law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress' ". 416 U. S. at 479.* The

* The Court has stated many times that it is reluctant to infer preemption of state law. *See, e.g.*, De Canas v. Bica, 424 U. S. 351, 357-58, n. 5 (1976) and Exxon Corp. v. Governor of Md., 98 S. Ct. 2207, 2217 (1978).

Court noted that the "stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts' ". 416 U. S. at 480. Accordingly, the purpose of the patent law is to encourage invention. It does so by granting the inventor a 17-year right to exclude others from using the patented invention in exchange for requiring full disclosure to the public of the invention so that any person skilled in the art may use the invention after the expiration of the 17-year term of the patent. As noted in *Kewanee*, this "disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art". 416 U. S. at 481.

Thus, in *Kewanee* the Court held that to decide whether state law is preempted by federal patent law it is necessary to determine whether the state law stands as an obstacle to the encouragement of invention and the public disclosure of inventions through the issuance of patents.

B. The Majority Below Failed Entirely to Apply the Test of Preemption Enunciated in Kewanee.

The court of appeals below ignored the teaching of *Kewanee* and made absolutely no analysis of how enforcement of the contract involved here would "stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" in enacting the patent law. Although the dissent correctly pointed out that it is *Kewanee* to which the court should look for guidance in answering the question before it (App. 79), the majority merely reiterated the holding of *Kewanee* that state trade secret laws protecting unpatented but patentable inventions do not conflict with the patent law policy of disclosure (App. 71). The majority made no attempt to determine whether enforcement of contracts of the type involved in this case would discourage invention or discourage the seeking of patents.

C. Application of the Kewanee Test Leads Inescapably to the Conclusion That Enforcement of the Contract Here Will Not Conflict with the Objectives of the Federal Patent Law.

Enforcement of the state-created rights in the contract involved in this case will not discourage invention or in any way conflict with the purposes of the federal patent law outlined in *Kewanee*. As pointed out by Judge Larson in his dissent, enforcement of this contract would not provide a disincentive to patent any invention which is patentable (App. 81). Unlike state trade secret law, which the Court found in *Kewanee* might provide *some* disincentive to patenting, the state contract law involved in this case provides *no* disincentive to patenting.

In fact, it is the decision below which will discourage innovation by those who would otherwise spend time, money and effort to develop new articles or designs in the expectation that they can enter into contracts with manufacturers to pay royalties for the use of the development irrespective of whether it is patentable. Under the majority decision, the only alternative such inventors will have if their invention is unpatentable is to attempt to negotiate a large lump sum payment for the disclosure of their design. However, few manufacturers are willing to make such lump sum payments since they cannot predict the success of the product. The decision below is particularly egregious with respect to small inventors because it eliminates the economic incentive provided by the normal operation of state contract law. Such an effect of discouraging inventors is directly contrary to the federal policy of encouraging innovation which this Court reemphasized in *Kewanee*.

By the same token, the decision below will result in fewer disclosures of inventions to the public. As noted in *Kewanee*, "The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee . . ." 416 U. S. at 486. Thus, the result of precluding agreements of the type involved here would be "to hoard rather than disseminate knowledge". 416 U. S. at

486. The agreement in this case resulted in the design of the keyholder becoming known not only to Quick Point but also to Quick Point's competitors who saw and copied the design (App. 20). That design not only became available to the public but it may very well have contributed to the design of other keyholders, which, while not identical, were suggested by or invented as a result of the success of the keyholder licensed by Aronson.

This Court said in *Kewanee* that "[w]hen a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure. . . ." 416 U. S. at 481. If the framers of the patent law felt that public disclosure was worth that high price, the encouragement of disclosure by agreements of the type involved here is certainly worth the relatively modest price of requiring the single manufacturer who had the benefit of first disclosure to live up to his contract to pay royalties.

The following statement by the Court in *Kewanee* concerning trade secret law is equally applicable to the state contract law which would enforce the agreement here:

> "Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it." 416 U. S. at 493.

The fundamental question involved in this case is whether or not enforcement of the contract impermissibly conflicts with the objectives of federal patent law. Based on *Kewanee* it is

obvious that no such conflict exists and thus there is no reason for the federal courts to preempt the operation of state law in this case.

II. The Cases Relied Upon by the Majority Below Do Not Support Its Decision But Instead Are Consistent with Enforcement of the Contract.

Not only did the majority below fail to apply the federal preemption analysis enunciated in *Kewanee*, but it also misread the decisions upon which it did rely. An examination of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964), *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964), and *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), the cases relied upon by the majority below, shows that they fail to support the reasoning of the majority opinion and are fully consistent with the enforcement of the contract.

Sears and Compco

In *Sears*, Stiffel had brought an action against Sears for patent infringement and unfair competition in selling lamps similar to Stiffel's patented lamps. The district court, after holding Stiffel's patents invalid, found that Sears' sales of "a substantially exact" copy of Stiffel's lamp constituted unfair competition under Illinois law and enjoined Sears from attempting to sell lamps identical or confusingly similar to Stiffel's.

This Court held that a state's unfair competition law could not prohibit the copying of an article which is not protected by a federal patent. The Court said:

> "An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so. . . . To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the

> public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions . . ., States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated." 376 U. S. at 231-32.

That same day the Court rendered its opinion in a companion case, *Compco*. That case involved a patent infringement and unfair competition claim concerning the copying of a light fixture covered by a design patent. The district court again held the patent invalid but enjoined copying of the fixture under Illinois law. This Court said:

> "Today we have held in [*Sears*], that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, § 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. Here Day-Brite's fixture has been held not to be entitled to a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases." 376 U. S. at 237-38.

The above quoted passages show how different this case is from *Sears* and *Compco* both in fact and in principle. Neither *Sears* nor *Compco* involved enforcement of a contract. Instead, in those cases the plaintiffs, though deprived of federal patent protection, were attempting to use state law to set up what amounted to a state patent system. As the Court noted, 376 U. S. at 229-31, the federal patent system grants the patentee a statutory monopoly for a specific term of years once rigid standards of invention established by Congress are met. Once the period of the grant is up, the right to make the article, including exact copies, passes to the public. Under the lower court rulings in *Sears* and *Compco,* however, the plaintiffs had received perpetual

injunctions prohibiting the copying of articles which had been found unpatentable. In one fell swoop under Illinois unfair competition law they received a monopoly which in effect prohibited the entire public from making the articles without any time limitation and without meeting any standards of invention. This Court correctly noted that under the Supremacy Clause a state may not extend the life of a federal patent beyond its expiration date nor grant a patent on an article which lacks the level of invention required for federal patents. The heart of the ruling in *Sears,* as it applies to this case, is:

> "Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." 376 U. S. at 231.

As noted above, enforcing this *contract* under general principles of state contract law does not clash with the objectives of the federal patent laws. Forcing Quick Point to adhere to its agreement to pay the specified royalties so long as it makes the keyholder does not "block off from the public" anything involved in this case. *Cf. Sears,* 376 U. S. at 232. Any member of the public who is not a party to this contract may copy the keyholder and make it without any obligation whatsoever. That is exactly what has occurred (App. 20, 57). Even Quick Point is not prohibited from making the article; it is merely required to adhere to its agreement to pay a royalty if it does so. As noted by Judge Larson in his dissent (App. 80), the fact that strangers to this contract have every right to copy the keyholder and have done so distinguishes this situation from the problem involved in the enforcement of unfair competition law faced in *Sears* and *Compco.* The sole question here is not whether state law—be it contract or otherwise—can be used to prevent the public from copying an unpatented article. Rather, it is whether the states can validly require a party to live up to its agreement to pay another compensation for the manufacture of an unpatented article which was secret at the time of disclosure.

Brulotte v. Thys

The majority below erroneously concluded that *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964), also supports its conclusion. In that case certain patented machines were sold for a flat sum and their use was licensed under an agreement calling for continuing royalties. The license referred to several patents incorporated in the machines, all of which had expired by 1957 although the license agreements extended beyond that date and, in effect, required royalty payments on expired patents. This Court held that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*. 379 U. S. at 32. The rationale of the decision is that requiring royalty payments after a patent expires amounts to an extension of the patent monopoly past the time the law requires it to cease.

The Eighth Circuit relied on *Brulotte* for the proposition that if Aronson were successful in obtaining a patent on her keyholder, she could only collect royalties during the 17 year existence of the patent. The court apparently felt that to require Quick Point to pay royalties for a longer period of time where no patent was obtained would somehow violate federal patent policy (App. 71, 73).

But *Brulotte* expressly repudiated that theory and carefully distinguished situations in which no patent is involved. Thus, the Court noted that the case before it was not "like the hypothetical ones put to us where nonpatented articles are marketed at prices based on use". 379 U. S. at 31. More importantly, the Court pointed out:

> "The sale or lease of *unpatented* machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question." 379 U. S. at 32. (Emphasis in the original.)

A contract by which a manufacturer obligates itself to pay for the use of an unpatented *idea* is no different from a contract by

which a purchaser of an unpatented *machine* obligates itself to pay for the use of that machine. The effect on the patent system in both cases is nil.

The mere fact that the payment of royalties under the contract means that the licensee will make less profit does not render the obligation contrary to the federal policy encouraging innovation. Indeed, there are innumerable examples of businesses becoming obligated to pay a royalty, commission, or other fee to another either for a fixed or an indefinite period of time. For example, a salesman or manufacturers' representative may secure a particular account for a business in return for a commission on sales to that account so long as the business makes any such sales, even though he thereafter performs no service. Similarly, Quick Point and Aronson could have structured this agreement as a joint venture in which Aronson contributed her theretofore secret design (or the capital to develop it) and Quick Point agreed to manufacture and market the product, with Aronson to receive 5% of the sales for 5 years and 2½% thereafter so long as the joint venture continued to manufacture and sell the product. No one would suggest that such contracts were illegal or unenforceable and yet their effect is no different from that involved in this case.

The error of the court below results from a failure to understand the rationale behind *Brulotte* and other cases which have struck down contractual or other devices by which a patentee sought to expand the monopoly granted him by the patent. At the foundation of those cases is the fact that a patent gives the inventor something otherwise unobtainable (*i.e.*, the right to exclude all others during the term of the patent) and in return the public is entitled to expect that he will not misuse the patent nor attempt to expand the monopoly so granted. It is one thing to require a patentee to forego his right to obtain royalties for a period longer than 17 years in return for the exclusivity which the patent gives him (or his licensee) during those 17 years at the expense of the public. It is quite different when, as here, no

patent is granted because under these circumstances neither the inventor nor her licensee has exclusivity and neither may resort to the courts to obtain it. Thus, Aronson has taken nothing from the public which possibly justifies taking from her the rights the state says she has under normal contract law.

Lear v. Adkins

The majority below considered that the decision in *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), requires that Quick Point not be bound by its agreement. In fact, however, *Lear* expressly left open the question presented here.

In *Lear*, Adkins licensed Lear to use an invention which was covered by a patent application previously filed by Adkins. The parties agreed that if no patent were issued (or any issued patent held invalid) Lear could terminate the contract. While Adkins' patent application was still pending, Lear became convinced no patent would be issued and told Adkins it would no longer pay royalties on the use of his invention. Lear stopped the payments but continued to use the invention. Thereafter, Adkins was issued a patent and immediately sued Lear under the contract for royalties accrued since Lear stopped paying. Lear sought to raise patent invalidity as a defense but the California Supreme Court, relying on the doctrine of licensee estoppel, held that Lear could not challenge the patent and that it must pay the royalties to Adkins.

This Court held that there is an important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Thus encouraging challenges to invalid patents is an important aspect of federal patent policy which the doctrine of licensee estoppel frustrated by muzzling the one person (the licensee) with the most incentive to make such a challenge. The Court noted that if licensees are so muzzled "the *public* may continually be required to pay tribute to would-be monopolists without need or justification". 395 U. S. at 670 (emphasis supplied). It thus concluded

that there was a conflict between the state's estoppel doctrine and the federal patent policy, and that "the technical requirements" of the estoppel doctrine must give way. 395 U. S. at 670.

As part of its consideration of the estoppel doctrine, the Court also raised the question of the recovery of the contracted-for royalties by Adkins. As the Court noted, the Lear license was entered into five years before the patent issued. Thus Lear obtained special access to Adkins' ideas in return for its promise to pay satisfactory compensation. Since patent applications are secret, 35 U. S. C. § 122, Lear had gained "an important benefit" not generally obtained by the typical patent licensee. By promising to pay royalties beginning in 1955, Lear gained immediate access to ideas it might not have learned until the patent issued in 1960. The Court said:

> "At the core of this case, then, is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea." 395 U. S. at 672. (footnote omitted).

The Court chose not to answer this question. It did hold that in order not to discourage challenges to patents Lear did not have to pay royalties accruing *after* the patent issued while it challenged its validity. However, with respect to pre-issuance royalties the Court said:

> "Adkins' claim to contractual royalties accruing before the 1960 patent issued is, however, a much more difficult one, since it squarely raises the question whether, and to what extent, the States may protect the owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties. . . . Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this reevaluation may revolutionize the law of any particular State in this regard. Consequently, we have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to

define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas. Given the difficulty and importance of this task, it should be undertaken only after the state courts have, after fully focused inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future."* 395 U. S. at 674-75. (Emphasis in the original.)

Mr. Justice Black, joined by Mr. Chief Justice Warren and Mr. Justice Douglas, dissented from that part of the opinion which reserved for future decision "the question whether the States have power to enforce contracts under which someone claiming to have a new discovery can obtain payment for disclosing it while his patent application is pending, even though the discovery is later held to be unpatentable". 395 U. S. at 676. Justice Black felt the reservation of the question conflicted with *Sears* and *Compco* and that private contracts under which inventors disclose their unpatented discoveries in return for contractual payments run counter to the plan of the federal patent laws.

Mr. Justice White, in his partial concurrence, felt the Court had no reason to raise or consider the question of the payment of royalties before or after the issuance of the patent, noting, however, that to the extent post-issuance royalties represent payment for the pre-issuance disclosure of the idea they seem indistinguishable from pre-issuance royalties at least for purposes of federal patent law. 395 U. S. at 682, n. 2.

As can be seen from the opinions in *Lear*, far from requiring the conclusion of the majority below, this Court expressly left

* It should be noted that Mr. Justice Harlan, author of the majority opinion in *Lear*, had indicated in his dissenting opinion in *Brulotte* that he thought such contracts would be enforceable:

> "It is equally unquestionable, I take it, that if Thys had had no patent or if its patent had expired, it could have sold its machines at a flexible, undetermined price based on use; for example, a phonograph record manufacturer could sell a recording of a song in the public domain to a juke-box owner for an undetermined consideration based on the number of times the record was played." 379 U. S. at 34. (Harlan, J., dissenting.)

open the question of the enforceability of contracts calling for royalties on non-patented inventions, and therefore refused to decide the enforceability of a contract for royalties during the pendency of a patent application. The majority below has decided the question left unanswered in *Lear*, at least in those situations where the sale of the licensed article discloses the invention. However, in doing so, it ignored both the clear teaching of *Kewanee* and this Court's direction in *Lear* to reconsider the theoretical basis for enforcing such contracts and reconcile the competing demands of contract and patent law. Instead, the court of appeals looked to the dissent in *Lear* of Justices Black, Warren and Douglas, and quoted the statement of Mr. Justice Black that the "national policy expressed in the patent laws . . . cannot be frustrated by private agreements among individuals, with or without the approval of the State", as if it represented the decision of the Court. (App. 70).

The policy underlying the Court's decision on the issue that *was* decided in *Lear* does not require that the contract involved here be declared unenforceable. That policy is that it is contrary to the public interest to have invalid patents go unchallenged. Since a patent licensee is perhaps uniquely qualified and motivated to challenge the validity of a patent, state contract law preventing or discouraging him from challenging the licensed patent's validity directly conflicts with the federal policy encouraging such challenges. But that policy has no application to this case because here there is no patent to be declared invalid.

The majority below recognized that no patent is involved but placed controlling reliance upon the fact that a "patent application is involved" (App. 70). But a patent application is not a patent. It takes nothing from the public and gives the inventor no monopoly or right to exclude the public from the use of his invention. In addition, patent applications are maintained in secrecy, 35 U. S. C. § 122. Thus the mere existence of a secret patent application does not bring into issue federal patent pre-

emption and certainly does not justify the drastic step of striking down state contract law.*

In addition, the majority misconstrued the relationship between the patent application and the contract here. The Quick Point license was not a license of Aronson's patent application, but existed separate and apart from it. In the original agreement Quick Point stated it would have "the exclusive right to make and sell keyholders of the type *shown* in your application. . . ." and would pay royalties "on all keyholders which we make in accordance with the design *shown* in your application. . . ." (App. 23; emphasis added). As Quick Point's own patent attorney recognized years after the agreement was signed, the license agreement was:

> ". . . in respect of the *disclosure* of . . . [the] application (*not* merely in respect of its claims) and that *even if no patent is ever granted* . . ., Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. 39; emphasis added).

The only relevance the patent application had to the original disclosure and agreement was as a vehicle to describe the article licensed to Quick Point and to identify it for purposes of the contract. This could have as easily been accomplished by some other means and that fact alone should not be the deciding factor in this case.

There is no doubt that Quick Point and Aronson hoped that a patent would issue and intended that Aronson should prosecute the application. However, the parties recognized that no patent might issue and provided for that event in the addendum by reducing the royalties after a reasonable time if no patent issued. In any event, Quick Point clearly expressed its desire to have the right to manufacture the article disclosed to it in

* If the existence of the patent application is the fact which renders this contract invalid, then the decision of the majority below stands only to further discourage patent applications and thus directly conflicts with the purpose of the patent law.

confidence and wanted to do so irrespective of whether a patent ever issued or not. It was willing to pay a 5% royalty during the pendency of the application and thereafter if a patent should issue; but Quick Point also was willing, in return for the disclosure and the head start it gave Quick Point over the rest of the industry, to pay a 2½% royalty for as long as it sold the keyholder *even if no patent issued.*

Nothing in any of the cases relied upon by the majority below requires or even supports the conclusion that state law should be preempted to preclude enforcement of the state-created rights in this contract. The court of appeals pointed out that *Lear, Sears* and *Compco* all state that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent (App. 69). But it does not follow from that statement that valid contracts providing for continuing payments cannot be entered into relating to ideas which subsequently come into general circulation. If read to mean that such contracts are invalid, the statement is simply too broad and amounts to a reversion to the discredited doctrine (based upon the *dictum* of Mr. Justice Black in his opinions in *Sears* and *Compco* and his partial dissent in *Lear*) that the federal patent law is exclusive—a doctrine soundly rejected by this Court in *Kewanee.*

III. The Decision Below Is Contrary to the Great Weight of Federal and State Authority.

In deciding to strike down this contract, the Eighth Circuit ignored both federal and state authority enforcing contracts involving disclosure of an unpatented idea or article which later became public. The leading authority upholding such a licensing agreement is the Second Circuit decision in *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960). As the dissent below noted, "this case is virtually on all fours with [*Warner-Lambert*]" (App. 75).

In *Warner-Lambert*, a manufacturer agreed in the 1880's to make payments to the discoverer of the formula for the liquid antiseptic Listerine so long as it continued to manufacture the product. By 1931 the formula had been published in several medical publications. Warner-Lambert filed suit in 1956 for a declaratory judgment that it was no longer obligated to make the payments since the formula was no longer secret. The district court held that the agreement did not require that the formula remain secret and therefore Warner-Lambert must abide by its agreement and continue the payments if it continues to manufacture Listerine. The court of appeals in a *per curiam* opinion affirmed on the opinion of the district court.*

Warner-Lambert relied, as does Quick Point, on patent and copyright cases limiting the time for which the licensee must pay royalties to the statutory term of the grant. The court found such cases inapplicable to a contract involving the disclosure of a secret because the statutory monopoly granted by the patent and copyright laws carries with it the concomitant demand that after the statutory period expires the patented or copyrighted material must be released to the public for general use. Thus, such contracts operate with that public policy as a background. 178 F. Supp. at 665. In trade secret contracts, however, the court found no such public policy and said the parties are free to contract in any manner which they determine for their own best interests. The trade secret may remain secret indefinitely or it may be discovered and used immediately by a third party who, of course, cannot be stopped by either party to the contract. That does not alter the obligation of the contract:

> "But that does not mean that one who acquires a secret formula or a trade secret through a valid and binding contract is then enabled to escape from an obligation to which he bound himself simply because the secret is discovered by a third party or by the general public. I see no reason why the court should imply such term or condition in a contract providing on its face that payment shall be coextensive with use. To do so here would be to rewrite the contract for the parties without any indication that they intended such a result." 178 F. Supp. at 665.

* *Warner-Lambert* takes on particular significance here since the court there was applying the law of Missouri, 178 F. Supp. at 661, n. 5, which is applicable to this case under Erie R.R. Co. v. Tompkins, 304 U. S. 64 (1938).

The district court also noted that the licensee in a trade secret contract takes the trade secret subject to the risk of disclosure. All the inventor does is "to convey the knowledge of the formula or process which is unknown to the purchaser and which in so far as both parties then know is unknown to anyone else". 178 F. Supp. at 666. With respect to what their relationship should be when the secret becomes known to the public, the contract between them is the final arbiter:

> "If they desire the payments or royalties should continue only until the secret is disclosed to the public it is easy enough for them to say so. But there is no justification for implying such a provision if the parties do not include it in their contract, particularly where the language which they use by fair intendment provides otherwise." 178 F. Supp. at 666.

Finally, the court looked to the conduct of the parties to reaffirm its upholding of the contract. Although Warner-Lambert claimed that the public disclosure of the formula (in 1931) terminated the contract, the court found that 25 years had passed before the contract was challenged. During that time the contract payments were faithfully made. In addition, in 1950 the company had reaffirmed the obligation in a letter. The court said that the continuing payments and reaffirmance of the agreement, long after the public disclosure, were "strong evidence that the obligation to pay still continues in force and effect . . .". 178 F. Supp. at 668.

The similarities between *Warner-Lambert* and this case are striking, and the same result there should obtain here. In this case, the contract clearly says that Quick Point will pay Aronson royalties on the sales of the invention "as long as you continue to sell same" (App. 25). The intent of the parties could not be more clear.

Further, as in *Warner-Lambert,* Quick Point continued to pay royalties long after the invention was made public (*i.e.,* for 19 years after it made its first sale which disclosed the invention and for 14 years after the patent application was abandoned). Also, years after the keyholder was made public, Quick Point repeatedly reaffirmed its obligation to continue making the payments (App. 39, 41).*

Warner-Lambert is prior, well-reasoned authority from the Second Circuit which the Eighth Circuit opinion diametrically opposes. This Court should exercise its supervisory powers over the federal courts and resolve this conflict in favor of the better-reasoned *Warner-Lambert* case.

Quick Point has urged that *Warner-Lambert,* having been decided before *Sears, Compco, Brulotte* and *Lear,* is no longer valid authority. This contention is frivolous, particularly in light of this Court's decision in *Kewanee.* Furthermore, cases decided since *Sears, Compco* and *Lear* have relied on the rationale of *Warner-Lambert.* See, *e.g., Shepard* v. *Commissioner,* 57 T. C. 600 (1972), where the U. S. Tax Court, considering the taxable nature of certain payments involving the transfer of technology, said:

> "In construing agreements where no provision has been made with respect to the termination of payments called for by such agreements, the courts have held that where such an agreement relates to a license under a patent or a copyright, the expiration of the patent or of the copyright constitutes an implied termination date. See [*Warner-Lambert*] and cases cited therein. However, the above-cited case clearly indicates that no such termination date may be implied where such an agreement relates to a trade

* There is still another similarity between this case and *Warner-Lambert.* There the court noted that the claim of invalidity of the contract was never hinted at or raised until after plaintiff's predecessor was merged into the present plaintiff and "new management" took control. 178 F. Supp. at 667. Here Quick Point never challenged the contract so long as G. A. Goessling, the original signatory to the contract, was president of Quick Point, but raised the point only after he died and his son, John G. Goessling, became the president.

> secret, even when the subject of such an agreement becomes public knowledge." 57 T. C. at 613.

See also *Bolt Associates, Inc.* v. *Alpine Geophysical Associates, Inc.,* 244 F. Supp. 458, 463 (D. N. J. 1965) (decided before *Lear* but after *Sears* and *Compco*) (*Warner-Lambert* teaches that "a person to whom a trade secret is disclosed must honor his contract even after the *res* of the secret has become widely and generally known").

In *Laff* v. *John O. Butler Co.,* No. 77-567 (Ill. App. Ct., 1st Dist., July 21, 1978), the court relied on *Warner-Lambert* to enforce a trade secret contract, specifically rejecting the suggestion that *Warner-Lambert* had been eroded by the holding in *Lear,* slip op. at 15-16. In *Sinclair* v. *Aquarius Electronics, Inc.,* 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974), the court, relying on *Kewanee,* held that a trade secret contract providing for continuing royalties is valid and enforceable even if the invention is no longer secret.* *Beattie* v. *Product Design & Engineering, Inc.,* 293 Minn. 139, 198 N. W. 2d 139 (1972), holds that where a royalty agreement licensing an invention is not conditioned on the issuance of a patent, the abandonment of the patent application does not absolve the licensee of the duty to continue its royalty payments on use of the invention. See also *John E. Mitchell Co.* v. *Anderson,* 520 S. W. 2d 927 (Tex. Civ. App. 1975) (continuing obligation to pay royalties in accordance with contract).

Cases have also recognized that where, as here, the contract of the parties does not provide that the issuance of a patent is a condition precedent to the operation of the agreement, the failure of a patent to issue, or its invalidity, is not material to enforcement of the contract. See, *e.g., Beattie* v. *Product Design*

* Two California trial court opinions, decided before *Kewanee* and *Sinclair,* appear to reject *Warner-Lambert* and are contrary to the holding of *Sinclair.* See Pollack v. Angelus Block Co., 171 U. S. P. Q. 182 (Cal. Super. Ct. 1971) and Choisser Research Corp. v. Electronic Vision Corp., 173 U.S.P.Q. 234 (Cal. Super. Ct. 1972). Presumably these cases are overruled by *Sinclair. See,* 1 Milgrim, TRADE SECRETS, § 1.06, at p. 1-29, n. 5.

& Engineering, Inc., supra; Heltra, Inc. v. *Richen-Gemco, Inc.*, 395 F. Supp. 346, 351-52 (D. S. C. 1975), *rev'd on other grounds*, 540 F. 2d 1235 (4th Cir. 1976) (invalidity of patent may not be raised, despite *Lear*, where agreement conveys patent application plus other consideration and royalty payments are due regardless of whether patent ever issued); and *Wrigley* v. *Compudyne Corp.*, 390 F. Supp. 478 (E. D. Pa. 1975) (where contract licensing a patent application, subsequently rejected, did not require issuance of a patent, court would not consider validity of patent issued under a later application in suit for royalties).

Finally, in *Richter* v. *Westab, Inc.*, 529 F. 2d 896, 900-02 (6th Cir. 1976), the court, in analyzing the problems presented under federal law for firms which sell ideas as their product, noted that the general rule of law is that ideas are not the property of anyone under federal law unless patented or copyrighted, citing *Lear*. But the court also indicated that contracts conveying such ideas are valid and enforceable even though the idea is not patented and is not a trade secret. *See also, Williams Petroleum Co.* v. *Midland Cooperatives, Inc.*, 539 F. 2d 694 (10th Cir. 1976) (finder's fee contract).

Thus, a number of other federal and state courts have recognized that the philosophy of *Warner-Lambert* is still valid and that *Sears* and *Lear* did not vitiate state contract law in this area.*

* Of course many cases decided before *Sears* and *Lear* upheld contracts in situations similar to this one. *See, e.g.*, Schnack v. Applied Arts Corp., 283 Mich. 434, 278 N. W. 117 (1938); Ingraham v. Schaum, 157 Pa. 88, 27 A. 404 (1893); Bancroft & Rich v. Union Embossing Co., 72 N. H. 402, 57 A. 97 (1903); Sunday v. Novi Equipment Co., 290 Mich. 539, 287 N. W. 909 (1939); Cammack v. J. B. Slattery & Bro., Inc., 241 N. Y. 39, 148 N. E. 781 (1925); Schonwald v. F. Burkart Mfg. Co., 356 Mo. 435, 202 S. W. 2d 7 (1947); Ekins v. Auto Arc-Weld Mfg. Co., 15 Ohio Op. 2d 300, 175 N. E. 2d 221 (C. P. 1955); Jones v. Ulrich, 342 Ill. App. 16, 95 N. E. 2d 113 (1950); Sandlin v. Johnson, 141 F. 2d 660 (8th Cir. 1944); Sloan v. Mud Products, Inc., 114 F. Supp. 916 (N. D. Okla. 1953); Muzak Corp. v. Hotel Taft Corp., 1 N. Y. 2d 42, 133 N. E. 2d 688 (1956); Chandler v. Roach, 156 Cal. App. 2d 435, 319 P. 2d 776 (1957); and Cain v. White, 377 S. W. 2d 90 (Ky. 1964).

These cases and the position of petitioner here are also consistent with the writings of legal scholars who have similarly concluded that loss of secrecy should not absolve the licensee of his contractual obligation to pay royalties. One leading commentator who has written extensively in the field of trade secrets has pointed out that:

> "Since a trade secret owner cannot offer protection to his licensees against independent developers, it follows that the consideration for a trade secret license is disclosure of the trade secret, not the right to continued enjoyment as in the case of a patent license. Your author has long been of the view that if the trade secret licensee cannot, in the license negotiations, bargain for royalty reduction or abatement upon the secret's becoming generally known or simply used by a few competitors, his continued use should bear royalty. That view has now been fully and articulately developed, in a manner showing the result encourages competition *and* respects contract obligations." 1 Milgrim, TRADE SECRETS, § 6.05[2] [d] at p. 6-144-45 (1977) (emphasis in the original).

That same commentator also has said:

> "If a trade secret licensee does not elect to condition continuing royalty on continuing secrecy, we may assume that the value of immediate disclosure weighed heavily. It is no more appropriate for a court of law, after the fact, to renegotiate a trade secret license agreement when the subject matter becomes generally known than it is for a court to set aside a contract to purchase a house, a car or tickets to the opera where the purchaser could have driven a better bargain but did not." Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N. Y. U. L. Rev. 17, 31 (1971).

See also, McCarthy, *"Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear* v. *Adkins*, 45 Geo. Wash. L. Rev. 429, 472-75 (1977).

The statement of Mr. Justice Traynor of the California Supreme Court, concerning the law applicable to contracts involving abstract ideas is particularly apt here:

"The policy that precludes protection of an abstract idea by copyright does not prevent its protection by contract. Even though an idea is not property subject to exclusive ownership, its disclosure may be of substantial benefit to the person to whom it is disclosed. That disclosure may therefore be consideration for a promise to pay. . . . Unlike a copyright, a contract creates no monopoly; it is effective only between the contracting parties; it does not withdraw the idea from general circulation. Any person not a party to the contract is free to use the idea without restriction.

"Even though the idea disclosed may be 'widely known and generally understood', . . . it may be protected by an express contract providing that it will be paid for regardless of its lack of novelty." *Stanley* v. *Columbia Broadcasting System*, 35 Cal. 2d 653, 221 P. 2d 73, 85 (1950) (dissent); quoted in *Desny* v. *Wilder*, 46 Cal. 2d 715, 299 P. 2d 257, 266 (1956).

There is no doubt that the disclosure of Aronson's idea was valuable and important to Quick Point. Quick Point wanted Aronson's idea, with or without a patent, and even though it recognized that its sale of the keyholder would disclose it to the public and its competitors. Nevertheless, Quick Point has profitably manufactured and sold the keyholders pursuant to the contract for many years. As this Court said in *Lear*, "the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made." 395 U. S. at 668. There is no reason in this case for that maxim not to be fully applicable. Quick Point should be forced to live up to its agreement.

IV. In Straining to Find This Contract in Conflict with Federal Patent Policy the Court Below Ignored This Court's Warnings Against Unwarranted Invalidation of Private Contracts and Thereby Unnecessarily Imperiled Numerous Commercial Relationships and Transactions.

The majority below concluded that the policy embodied in the federal patent law requires that a contract by which one conveys a then-secret idea to another in return for some form of continuing payment be invalidated once the idea becomes public if no patent covers it. The effect of this ruling is not merely limited to contracts precisely like the one between Aronson and Quick Point but instead applies to many contracts involving the transfer of ideas in return for continuing, as opposed to lump sum, payments.

The decision thus places in doubt a large number of contracts and business transactions. It would render unenforceable every agreement by which a previously undisclosed idea or article which is not patentable or protectable by copyright is licensed under continuing royalties. For example, before the decision below the person who conceived a format or concept for a television series, or a motion picture, or an advertising campaign, could sell that idea in return for continuing payments based upon its use. However, under this decision, all contracts concerning such matters are unenforceable because those ideas can neither be patented nor copyrighted, and they become fully known to the public upon first use. Similarly, one who takes any other type of business opportunity or idea to another and obtains an agreement for a "finder's fee" in the form of a percentage of the sales derived from it will be foreclosed from doing so because a business idea cannot be patented and necessarily becomes public upon its first use. Even the popular employee suggestion plans under which employees who make useful suggestions receive future payments based upon the profits derived or savings achieved from the use of their ideas would

be valid under the decision below only if the idea is patented or can be kept secret. Thus, the effect of the decision below on any contract involving unpatented intellectual property which has become public since the contract was entered into is devastating.

In placing such reliance on its view of the policy embodied in the federal patent law, the court of appeals has mounted that proverbial "unruly horse" of public policy about which Mr. Justice Burrough warned so many years ago:

> ". . . when once you get astride it you never know where it will carry you. It may lead you from the sound law." *Richardson* v. *Mellish*, 2 Bing. 229, 252; 130 Eng. Rep. 294, 303 (C. P. 1824).*

In trampling Aronson's contract rights, the court of appeals also ignored this Court's frequent admonitions against striking down private contractual arrangements on the grounds of public policy. See, *e.g.*, *Baltimore & O. Ry.* v. *Voigt*, 176 U. S. 498, 505 (1900); *Twin City Pipe Line Co.* v. *Harding Glass Co.*, 283 U. S. 353, 356 (1931); *Steele* v. *Drummond*, 275 U. S. 199, 205 (1927); *A. C. Frost & Co.* v. *Coeur D'Alene Mines Corp.*, 312 U. S. 38, 44 (1941). Indeed, even in the area of antitrust policy where the Congress and the courts have forcefully emphasized the importance of freedom of competition from economic restraint the Court has counselled that caution must be exercised and "the federal courts should not be quick to create a policy of nonenforcement of contracts beyond that which is clearly the requirement" of the federal policy involved. *Kelly* v. *Kosuga*, 358 U. S. 516, 519 (1959). In *Kelly* the Court said:

> "Past the point where the judgment of the Court would itself be enforcing the precise conduct made unlawful by the Act, the courts are to be guided by the overriding general policy, as Mr. Justice Holmes put it, 'of preventing people from getting other people's property for nothing when they purport to be buying it.'" 358 U. S. at 520-21.

* *See also* American Airlines, Inc. v. Louisville & Jefferson County Air Board, 269 F. 2d 811, 825 (6th Cir. 1959).

Thus, the federal courts should not interfere with ordinary enforcement of state-created contractual rights unless a conflict with federal patent policy is both unquestioned and significant. Here, the conflict is not merely insignificant, it is nonexistent.

This case itself provides a good example of why a court should not be anxious to invalidate a private bargain on the basis of some supposed conflict with federal patent policy. Quick Point gained access to Aronson's keyholder design and received an invaluable head start on its competitors in making and selling it. In fact, it was several years before its competitors began making it (App. 20, 57). Quick Point has enjoyed substantial sales of Aronson's keyholder for over 20 years. Even in fiscal 1975, the most recent year for which figures appear in the record, its sales, based upon royalties of 2½%, were over $850,000 (App. 19). Of course in 1956 when the contract was signed, neither Quick Point nor Aronson could have known that the keyholder would sell for five years, twenty years or more. Quick Point was sufficiently sure of its success to pay Aronson for the right to use the design disclosed to it in confidence, but it wanted to tie the amount of the payment to the success of the device. The form of payment was, in effect, to allow Aronson to participate in the profits from its sale. Had the device been unsuccessful, Aronson would have received very little and this case would never have been filed. But the device was successful and Quick Point should not be permitted to deny Aronson the participation it promised her as consideration for her disclosure simply because her idea turned out to be a very good one for Quick Point.

CONCLUSION

For all the reasons stated above and in the petition for certiorari, the judgment of the Court of Appeals for the Eighth Circuit should be reversed.

Respectfully submitted,

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
ROBERT S. ROBIN
CHADWELL, KAYSER, RUGGLES, McGEE & HASTINGS, LTD.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL, GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

J. THOMAS McCARTHY
University of San Francisco
School of Law
San Francisco, California 94117

No. 77-1413

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

JANE ARONSON, *Petitioner,*

v.

QUICK POINT PENCIL COMPANY, *Respondent.*

On Writ of Certiorari to the United States Court of Appeals For the Eighth Circuit

---

BRIEF FOR THE RESPONDENT

ERWIN N. GRISWOLD
Counsel for Respondent

Of Counsel:

LINDA K. SMITH
KAREN L. GRIMM
JONES, DAY, REAVIS & POGUE
1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases:

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BRIEF FOR THE RESPONDENT

OPINIONS BELOW

The findings of fact and conclusions of law of the United States District Court for the Eastern District of Missouri (App. 60-64) are reported at 425 F. Supp. 600 (E.D. Mo. 1976). The opinion of the Eighth Circuit Court of Appeals (App. 66-83) is reported at 567 F.2d 757.

JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit was entered December 8, 1977. (App. 84.) A petition for rehearing was denied January 4, 1978. (App. 85.) The petition for a writ of certiorari was filed April 4, 1978, and was granted June 5, 1978. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

1. Whether a licensing contract made with respect to a specific patent application, which requires the licensee to continue paying royalties indefinitely despite the fact that the patent application was later abandoned, is invalid because it conflicts with the objectives of the United States patent laws.

2. Whether a contract requiring a patent application licensee to continue paying royalties indefinitely on the subject matter of an abandoned patent application, which is not a trade secret and which is being freely produced by the licensee's competitors, conflicts with national competition policy and decisions of this Court requiring full and free competition in the use of ideas in the public domain.

3. Whether a contract requiring a patent application licensee to continue paying royalties indefinitely on the subject matter of an abandoned patent application, which conflicts with both national competition policy in general and the United States patent laws in particular, is preempted by federal law and policy.

4. Whether the contract, in light of all the circumstances, should be construed to require payment of royalties after the patent application is abandoned.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8, clause 8.

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .

Article VI, clause 2.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Statutes:

35 U.S.C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 102.

> A person shall be entitled to a patent unless—. . .
>
> (b) the invention was . . . in public use . . . in this country, more than one year prior to the date of the application for patent in the United States . . . .

35 U.S.C. § 103.

> A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to

which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

35 U.S.C. § 133.

Upon failure of the applicant to prosecute the application within six months after any action therein, of which notice has been given or mailed to the applicant, or within such shorter time, not less than thirty days, as fixed by the Commissioner in such action, the application shall be regarded as abandoned by the parties thereto, unless it be shown to the satisfaction of the Commissioner that such delay was unavoidable.

35 U.S.C. § 154.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 261.

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive

right under his application for patent, or patents, to the whole or any specified part of the United States.

35 U.S.C. § 271.

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

STATEMENT

This case involves an exclusive licensing agreement under which the petitioner Jane Aronson (formerly Jane Leopoldi) gave the respondent Quick Point Pencil Company ("Quick Point"), a small Missouri corporation which manufactures specialty products for the advertising industry, the "exclusive right" to manufacture and sell a keyholder upon which she had a pending patent application. (App. 18.) In this action, petitioner contends that Quick Point must pay royalties on the keyholder *indefinitely* even though the patent which both parties assumed would issue has never been granted, the patent application has been abandoned, and Quick Point has never received the "exclusive right" for which it bargained.

On October 25, 1955, petitioner filed with the United States Patent Office a Patent Application, Serial No. 542677, on a simple keyholder consisting of a wire clip which fastens around a small plastic disc. (App. 4.)

In June, 1956, petitioner, accompanied by her agent and then husband, Norbert Leopoldi, went to Quick Point's offices in St. Louis, Missouri, to negotiate a licensing contract for the keyholder covered by petitioner's patent application. (App. 17.)

In a letter to petitioner dated June 26, 1956, Quick Point, through its President, G.A. Goessling (now deceased), set forth its proposed licensing agreement. (App. 23-24.) This contract, which was subsequently accepted by petitioner (App. 24), explicitly stated that Quick Point would have the "exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677." (App. 23.) For this "exclusive right," Quick Point agreed to pay a 5% royalty on all keyholders described in the patent application that it sold. (App. 23.) In addition, the contract specified what action Quick Point would take in "the event of any infringement." (App. 24.) Since the agreement was "to make and sell," it contained no provisions concerning confidentiality or restricting disclosure of the keyholder design. (App. 23-25.)

Petitioner received the Quick Point letter on June 27, 1956, and telephoned Mr. Goessling the same day. Petitioner then drafted, on the letterhead of "N. Leopoldi," two additional paragraphs as an addendum to Mr. Goessling's proposed exclusive licensing agreement. (App. 25.) The first of these paragraphs provided that:

> In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent ($2\frac{1}{2}\%$) of sales, at selling prices, as long as you continue to sell same.

Petitioner signed the licensing agreement and her own addendum on June 27, 1956, and forwarded these papers to Mr. Goessling in St. Louis. (App. 17.) Mr. Goessling signed the addendum in St. Louis and returned it to petitioner as an enclosure to a letter dated July 13, 1956. (App. 17.)

In July, 1956, Quick Point began manufacturing the keyholder covered by petitioner's Patent Application No. 542677, paying petitioner a 5% royalty on gross sales. (App. 18.) On June 26, 1961, five years after the date of the license, petitioner's royalty was reduced to $2\frac{1}{2}\%$ of sales, pursuant to the addendum, because petitioner had not been granted a patent on the application within five years. (App. 18.)

The patent, upon which the parties' exclusive licensing agreement was predicated, has never been granted. In 1956, the U.S. Patent Office rejected petitioner's Patent Application No. 542677. Petitioner filed an amendment to her original application, but the Patent Office in 1957 also rejected this amended application. The Patent Office Board of Appeals rejected petitioner's appeal of the rejection of her patent application on September 27, 1961, and petitioner thereafter abandoned her application. (App. 20.)[1]

As petitioner acknowledges (Br. 4), her keyholder could be readily copied by others as soon as it was marketed: that is, the keyholder could be literally "copied"; there is no question of "reverse engineering." By the

[1] On April 4, 1961 (some five months before petitioner abandoned her patent application), petitioner's agent and former husband, Norbert Leopoldi, filed a patent application, Serial No. 104496, covering a similar keyholder device. (App. 18.) Mr. Leopoldi obtained a patent on his keyholder in 1964. (App. 18-19.) It was with respect to this keyholder that Quick Point's outside counsel wrote to Mr. Leopoldi, discussing Quick Point's obligations under the contract with petitioner and informing him that the Aronson-Quick Point agreement prevented him from licensing his keyholder to anyone other than Quick Point. (App. 39.)

late 1960's, keyholders substantially identical to that exclusively licensed by petitioner to Quick Point began appearing on the market. (App. 20.) Quick Point's competitors do not pay royalties on the keyholders they sell. (App. 57.) The royalty payments to petitioner add to Quick Point's cost, thereby making it difficult for Quick Point to compete effectively in the keyholder market (App. 21), and Quick Point's share of the keyholder market, not surprisingly, has been continually eroding (App. 57), although its aggregate sales have increased.

From the date of the licensing agreement through September 30, 1975, Quick Point has paid petitioner royalties of $203,963.84. (App. 19.) As of October 1, 1975, Quick Point, on the advice of counsel, ceased making royalty payments to petitioner. (App. 22.)

On November 18, 1975, Quick Point filed an action in the Eastern District of Missouri, based on diversity of citizenship, seeking a declaratory judgment. (App. 3-11.) Quick Point sought to have its licensing agreement with petitioner declared unenforceable with regard to future royalty payments on the ground that a licensing agreement which provides for payment of royalties indefinitely on an article for which a patent was applied but never granted conflicts with the Supremacy Clause and Article I, Section 8, clause 8 of the United States Constitution. (App. 5.)

The district court took the case under submission on a record consisting of a joint stipulation of uncontested facts and affidavits filed in support of cross-motions for summary judgment. (App. 61.) The district court concluded that federal patent principles were not relevant and ordered Quick Point to continue paying royalties to petitioner as long as Quick Point continued to manufacture the keyholder. (App. 60.)

Quick Point appealed to the United States Court of Appeals for the Eighth Circuit (App. 65), contending (1) that the district court had erred in holding that the case was governed solely by state contract law (App. 68), and (2) that there was no continuing liability under the contract, as a matter of contract law, when the patent was not issued. *See* Appellant's Br. below, pp. 25-29. The Eighth Circuit Court of Appeals agreed. The court noted that in the licensing agreement petitioner had promised Quick Point the "exclusive right" to manufacture her keyholder, and stated the issue to be (App. 68):

> whether Quick Point, a patent application licensee, is bound by the contractual provision requiring it to pay royalties for as long as it manufactures the item described in the patent application even though the licensor abandoned the application many years ago and the licensee's competitors are freely manufacturing the unpatented item.

The Eighth Circuit concluded that Quick Point, which had contracted for the exclusive right to manufacture and sell an item covered by a patent application, could not be forced to continue paying royalties on the item where the licensor had abandoned the patent application and had never obtained the patent which formed the explicit basis of the agreement. (App. 73.) The court reasoned that forcing Quick Point to continue paying royalties under these circumstances would conflict with federal patent law and policy. (App. 73.) Accordingly, it reversed the judgment of the district court. On June 5, 1978, this Court granted the petition for a writ of certiorari.

SUMMARY OF ARGUMENT

Petitioner entered an exclusive licensing agreement with respondent Quick Point Pencil Company ("Quick Point"), with respect to a pending patent application for a keyholder that petitioner had developed. Under this agreement, petitioner was to provide Quick Point the "exclusive right" to manufacture and sell the keyholder. As petitioner admits, exclusivity may be obtained only by obtaining a patent (Br. 19), but the patent on which this agreement was based never issued, and several companies now are manufacturing the keyholder that petitioner had promised Quick Point it would have the "exclusive right to make and sell."

Petitioner, nevertheless, takes the position that Quick Point is obligated to continue paying royalties on the sale of the keyholder even though the patent on which the contract was founded never issued, the patent application was abandoned, and respondent never received the "exclusive right" for which it had bargained. The Court of Appeals for the Eighth Circuit correctly found that forcing Quick Point to pay royalties under these circumstances would conflict with federal patent law and policy.

1. This case does not involve a trade secret or know-how licensing agreement; it involves a licensing agreement with respect to a specific patent application. The keyholder does not qualify as a trade secret because it does not meet the criteria of use in business, production of a competitive advantage, or even secrecy. Restatement of Torts, § 757, comment b, at 5, 6 (1939). Petitioner did not use the keyholder in her business, nor did it lend her a competitive advantage. Once marketed, the petitioner's idea was disclosed to all the

world and could be readily copied, as petitioner concedes. (Br. 4.) Thus, this case is readily distinguishable from *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470, in that no trade secret is involved. Similarly, the licensing agreement does not involve know-how licensing. No body of technology or package of material was involved. Rather, the agreement was made with respect to a pending patent application for a single item, and, unlike the typical "know-how" agreement, not for a package of business skills. Having contracted to convey to respondent the "exclusive right" to manufacture and sell the keyholder in return for royalty payments, and having no trade secret or "know-how" to convey, the conclusion is inescapable that the contract was with respect to a pending patent application. Otherwise, petitioner could convey no exclusive right, for as the Court has repeatedly noted, *see, e.g., Gayler* v. *Wilder,* 10 Howard 477, 492-93, the right to exclusive exploitation of an invention is conferred only by the patent laws.

Thus, the issue before the Court is, as the Eighth Circuit correctly recognized, the obligation of a patent application licensee to continue paying royalties indefinitely on the subject matter of the patent application after the patent application has been abandoned and the subject matter of it is being freely manufactured and sold by the licensee's competitors.

2. A contract that requires a patent application licensee to continue paying royalties indefinitely on the subject matter of an abandoned patent application conflicts with the objectives of the federal patent laws and is, therefore, unenforceable. Enforcement of the contract provision at issue in this case would create incentives to avoid use of the federal patent system

which, in turn, would undermine the policy of the patent laws to encourage disclosure of new inventions. If the licensing agreement at issue here were upheld, inventors would be encouraged to use the leverage afforded by their pending patent applications to obtain highly favorable licensing agreements providing for royalties extending far into the future and then to abandon the applications upon which their agreements were based. This is because an inventor, such as the petitioner in this case, could collect royalties for only seventeen years if he obtained a patent on his invention, *Brulotte* v. *Thys Co.,* 379 U.S. 29, 33; however, if he abandoned his application, he could collect royalties forever. The incentive to apply for and abandon a patent is further enhanced by the fact that if a patent were to issue, and later be declared invalid, the licensee would no longer be obligated for most past royalties due. *Lear, Inc.* v. *Adkins,* 393 U.S. 653, 672-73, but if a patent were applied for and abandoned, the licensee would continue to be obligated for all past and future royalties. There would be no parity between an inventor to whom a patent issued and one who had applied for a patent but later abandoned the application. Thus, this contract cannot be enforced because it would discourage recourse to the federal patent system, *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470, and allow states to extend "perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated." *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225, 232.

3. Requiring a patent application licensee to continue paying royalties on the subject matter of an abandoned patent application where the subject matter of the application is being freely produced by the licensee's competitors would undercut "the strong federal policy favoring the full and free use of ideas in the public domain," long followed by this Court. *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 674; *see Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470; *Goldstein* v. *California,* 412 U.S. 546; *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225; *Compco Corp.* v. *Day-Brite Lighting, Inc.,* 376 U.S. 234. Petitioner's keyholder is an idea in the public domain and requiring continued royalty payments on it would require the public "continually . . . to pay tribute to would-be monopolists without need or justification." *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 670. Such forced tribute, required under the guise of state law, is anti-competitive and contrary to the principles enunciated by this Court in the cases cited above.

4. This contract, because it conflicts with both national competition policy in general and the United States patent laws in particular, is preempted by federal law. *Lear, Inc.* v. *Adkins,* 395 U.S. 653.

5. The contract should not be construed to require royalty payments to be continued indefinitely. Petitioner explicitly promised respondent the "exclusive right" to manufacture and sell her keyholder and agreed that in the event of "infringement" both parties would agree what action would be taken. Because petitioner abandoned her patent application, she never received the right to sue for infringement and respondent never received the "exclusive right" to manufacture and sell petitioner's keyholder. This failure of consideration discharges respondent's duty to provide further royalty payments to petitioner. Restatement of Contracts § 288 (1932); *see Drackett Chemical Co.* v. *Chamberlain Co.,* 63 F.2d 853 (6th Cir. 1933).

ARGUMENT

I. THIS CASE INVOLVES ONLY A LICENSING AGREEMENT MADE WITH RESPECT TO A SPECIFIC PATENT APPLICATION; IT DOES NOT AFFECT OR OTHERWISE INVOLVE THE ENFORCEABILITY OF TRADE SECRET OR KNOW-HOW LICENSING AGREEMENTS.

It is important at first to state the narrow issue that is actually before the Court.

The decision of the court below involves an agreement made specifically with respect to a pending patent application. The Eighth Circuit held that respondent could not be forced to continue paying royalties indefinitely for the manufacture and sale of the item which was described in the patent application when the application had been abandoned seventeen years ago, and the article to which it related was being freely manufactured and sold by respondent's competitors.[2]

Petitioner and amici curiae have taken a much broader view of the issues presented for decision by this Court than is warranted by the limited scope of the decision below and the specific facts presented in this case. Influenced by this expansive reading of the

[2] In the first four points of this Brief, it is assumed, for purposes of the argument, that the contract between the parties properly construed does call for the payment of royalties for an indefinite, perpetual period. Even on that construction of the contract, the respondent contends, for the reasons set forth below, that its obligation to pay royalties has terminated, as a matter of law. In the final point of this Brief, it is contended that, in the light of all the circumstances of this case, the agreement between the parties should not be construed as requiring royalty payments after the patent application was abandoned. By that time, it was clear that a substantial part of petitioner's promise to the respondent, that is, the "exclusive right" to produce the keyholder, was no longer forthcoming from the petitioner.

decision below, petitioner (and amici) assert that the decision casts doubt on all types of licensing agreements, including licenses of trade secrets and other know-how. (Br. 33.) This assertion confuses the holding below with other questions which are not at issue here. This case involves neither trade secrets nor know-how licensing agreements.

A. Petitioner's Simple Keyholder Device Is Not a Trade Secret.

Contrary to the dissenting opinion below (App. 73-83), this case does not involve a trade secret. Petitioner's design for a keyholder never amounted to a trade secret for it lacked the two unique characteristics which distinguish trade secrets from other types of intellectual property and which provide the economic and public policy justification for their protection.

A trade secret must be used continuously in the owner's business and lend him a competitive advantage. Restatement of Torts, § 757, comment b, at 5 (1939).[3]

[3] The Restatement of Torts, § 757, comment b, at 5 (1939), defines a trade secret as follows:

> A trade secret may consist of any formula, pattern, device, or compilation of information *which is used in one's business, and which gives him* [*the owner*] *an opportunity to obtain an advantage over competitors who do not know or use it.* It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. *A trade secret is a process or device for continuous use in the operation of the business.* . . . (Emphasis added.)

Businesses normally devote substantial resources and time to developing secret manufacturing processes and similar business materials having *competitive* value. As this Court noted in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 485, if such property were not afforded protection from unauthorized use and disclosure, businesses might lose the incentive to invest in the development of new processes and materials. Alternatively, businesses would be forced to rely on self-help measures to keep their secret processes to themselves, thereby diverting valuable economic resources from productive to protective uses. *Kewanee Oil Co.* v. *Bicron Corp., supra,* 416 U.S. at 485-86.

These policy considerations do not apply here because petitioner's simple keyholder, unlike the secret industrial process this Court considered in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470,[4] fails to meet this

[4] In the *Kewanee Oil* case, this Court held that trade secret law is not preempted by federal patent law. *Kewanee Oil* is a classic trade secret case which bears no factual similarity to this case.

In *Kewanee Oil*, employees misappropriated a secret process for the growth of synthetic crystals, which was developed and used in the course of their employer's business. 416 U.S. at 473. The secret process could not be readily ascertained by the employer's competitors when the product was marketed. Indeed, the secret process had not been discovered at the time of trial. 416 U.S. at 473-74. This Court, emphasizing the state's strong interest in preventing "industrial espionage" and similar breaches of confidentiality, 416 U.S. at 487, held that the district court had properly applied the state trade secret law by enjoining the employees' disclosure or use of certain of their employer's trade secrets until such time as the trade secrets had been released to the public, had otherwise become generally available, or had been obtained from sources having the legal right to convey the information. 416 U.S. at 473-74. Unlike *Kewanee Oil*, the present case involves neither misappropriation nor a *bona fide* trade secret.

basic prerequisite of trade secret protection. Petitioner is an aspiring inventor who sought a patent, and obtained a licensing agreement with respect to her pending patent application. Petitioner at no time "used" the keyholder in her "business," whether continuously or otherwise, and the keyholder lent her no competitive advantage. Where these criteria are not met, an invention—no matter what its other attributes may be —cannot qualify as a trade secret. 2 Milgrim, *Trade Secrets* § 8.03, at 8-35 to 8-37 (1978).

Further, petitioner's simple keyholder device does not qualify as a "secret." The respondent's licensing agreement gave it the right to "make and sell" the product (App. 23), and the mere fact of putting it on the market, pursuant to the contract, fully disclosed the idea to the whole world. From that time forward, the only protection was in the patent application. There was no secret process. There was nothing to be held confidential. From the moment of the first authorized sale, there was no secret.

To qualify for trade secret protection "a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information." Restatement of Torts, § 757, comment b, at 6 (1939). Consequently, matters which are completely disclosed upon marketing cannot be trade secrets. *Id.* A device readily ascertainable by members of the trade, as is petitioner's keyholder (App. 20-21), cannot be a trade secret, for while "[a trade] secret need not be novel or inventive in a patentable sense, it must 'possess at least that modicum of originality which will separate it from everyday knowledge' and must be more than 'ordinary mechanical commonality.' " *Keystone Plastics, Inc.* v. *C & P Plas-*

tics, Inc., 340 F. Supp. 55, 74 (S.D. Fla. 1972), *quoting Cataphote Corp.* v. *Hudson,* 444 F.2d 1313, 1315 (5th Cir. 1971), *aff'd,* 506 F.2d 960 (5th Cir. 1975).[5] Lacking the essential attribute of secrecy, petitioner's keyholder was not a trade secret nor entitled to protection as a trade secret. As the Eighth Circuit correctly recognized (App. 68), petitioner, unlike the Kewanee Oil Company in *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470, is not—and never has been—a trade secret owner.

B. Petitioner's Simple Keyholder Device and the Licensing Agreement Here Are Clearly Distinguishable From Confidential Disclosures of Packaged Business Know-How.

Know-how, although not susceptible to precise definition,[6] may be considered a body of technology, ordinarily unpatented and unpatentable, which is useful in

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[5] Similarly, in *Sarkes Tarzian, Inc.* v. *Audio Devices, Inc.*, 166 F. Supp. 250 (S.D. Cal. 1958), *aff'd per curiam,* 283 F.2d 695 (9th Cir. 1960), *cert. denied,* 365 U.S. 869, the court stated that a trade secret "must consist of a particular form of construction of a device, a formula, method or process that is of a character which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge." *Id.* at 257-58. *See also Wilkin* v. *Sunbeam Corp.*, 377 F.2d 344, 347 (10th Cir. 1967), *cert. denied,* 389 U.S. 973 (no trade secret where principles incorporated in appellant's device were known to industry prior to appellant's application for patent); *American Gage & Mfg. Co.* v. *Maasdam,* 245 F.2d 62, 64 (6th Cir. 1957) (no trade secrets or know-how imparted; device completely disclosed elements of construction).

[6] One commentator has stated that know-how is "an amorphous, ill-defined glob of technology that has no clear time limits and no clear geographical limits. Its subject matter is not only vaguely defined; it is not even publicly defined." Stedman, *Legal Problems in the International and Domestic Licensing of Know-How,* 29 A.B.A. Sec. Antitrust Law 247, 250 (1965).

making a product for commercial sale. Worthing, *Know-How Misuse: A Potential Weapon for Licensees,* 53 J. Pat. Off. Soc'y 177, 178 (1971).[7] A know-how license may include such items as engineering drawings, fixtures, bills of material and even the brainpower of the licensor's personnel. *Id.* Although it may, as amicus The American Patent Law Association notes, contain some patented articles (Br. 22, A-1), the *body* of materials conveyed pursuant to a know-how licensing agreement is clearly unpatentable and the parties to such an agreement do not contract with specific reference to the patentability of any given article within the package.

As amicus The American Patent Law Association itself acknowledges, such packaged business know-how is readily distinguishable from petitioner's simple keyholder device. (Br. 22.) Unlike the typical know-how license, petitioner and Quick Point in this case contracted with regard to only one item which clearly falls within the category of subject matter patentable under 35 U.S.C. § 101 (1970). Unlike a typical know-how license, Quick Point and petitioner contracted with specific reference to a pending patent application on that one item, and considered the granting of a patent on the device to be of basic importance. Thus, the subject matter of this case bears no resemblance to the type of packaged business know-how and "what-not-to-use" information described for this Court at considerable length by The American Patent Law Association.

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[7] Similarly, amicus curiae The Patent, Trademark and Copyright Section of the State Bar of Texas defines know-how as "the specialized knowledge of how to economically and effectively perform a given task" and notes that such information is seldom patentable. (Br. 10.)

C. Petitioner's Agreement With Quick Point Is a License Under a Pending Patent Application Pursuant to Which Quick Point Agreed to Pay Royalties for the "Exclusive Right" to Manufacture and Sell Petitioner's Keyholder Device.

Petitioner and amici curiae erroneously equate the royalty agreement at issue in this case to a typical trade secret or know-how license in which the licensee bargains only for disclosure. *See infra* at 22. This characterization directly contradicts the conclusion reached by the court below (App. 68),[8] and completely ignores

[8] The dissent below also erroneously concluded that the agreement at issue in this case is a trade secret license. (App. 74.) The majority, however, noted that "[t]he agreement was not for disclosure but for the exclusive right to manufacture an invention that was to be patented" (App. 69), and explicitly characterized the respondent as a patent application licensee. (App. 68.)

Nevertheless, the United States contends that "[t]he court's decision rests entirely on the proposition that federal law prevents enforcement of valid trade secret licenses" (Br. 9, at n. 2), claims that the character of the parties' agreement makes little difference to the outcome of this case (Br. 9), and suggests that the agreement may be understood as either a trade secret license or as a promise to pay petitioner for services rendered in designing the keyholder. (*Id.*)

Both of these characterizations by amicus United States of the agreement at issue in this case are incorrect. Petitioner's keyholder is not and has never been a trade secret (*see supra* at 15-18) and Quick Point contracted not for petitioner's services but rather for the "exclusive right to make and sell" petitioner's product (*see infra* at 21). Furthermore, the fact that this agreement was under a pending patent application is both central to the decision below and of crucial importance to the disposition of this case. By refusing to identify and come to terms with the particular type of licensing agreement at issue in this case, the United States further beclouds the issue before this Court and advances legal arguments which are erroneously keyed to trade secret licenses in general rather than to the specific type of patent application licensing agreement at issue in this case.

the plain language of the licensing agreement, which states that Quick Point was to obtain the "exclusive right to make and sell" the keyholder which was the subject of petitioner's pending patent application in consideration for a 5% royalty on all keyholders of that type it sold.[9]

The right to exclusive exploitation of an invention is one granted only by the patent laws and only a patentee can convey this exclusive right. *See, e.g., Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 490; *Marsh* v. *Nichols, Shepard & Co.*, 128 U.S. 605, 612; *Gayler* v. *Wilder*, 10 Howard 476, 492-93.[10] In contrast to a pat-

[9] The agreement states, *inter alia*, that (App. 7):

> Quick Point Pencil Company will have the *exclusive right to make and sell* keyholders of the type shown in your application, Serial No. 542677, and will start manufacturing within 60 days after you indicate your acceptance of the following terms.
>
> We will pay you $750.00 right away as an advance payment on royalties; the royalty rate will be 5% of our selling price (not to include shipping charges) on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677.
>
> * * *
>
> *In the event of any infringement*, as I discussed with Mr. Leopoldi, we will at the time decide between us any action that should be taken. However, we will not agree to enter into litigation until a mutual conference and understanding can be reached between us. (Emphasis added.)

[10] The Sixth Circuit, quoting in part *Gayler* v. *Wilder*, *supra*, explained this principle as follows:

> The inventor of a new and useful improvement has no exclusive right to it until he obtains a patent. This right is created by the patent, but the discoverer is vested by law with an inchoate right to its exclusive use which he may perfect and make absolute by proceeding in the manner which the law requires and after an inventor files his application pursuant to the statute he may transfer all of this right by assignment or a part of it by license. *Baldwin Rubber Co.* v. *Paine & Williams Co.*, 107 F.2d 350, 353 (6th Cir. 1939).

ent licensor, neither a trade secret licensor nor the licensor of other know-how is able to guarantee exclusive use to a licensee because others are free to copy a trade secret or idea once it is disclosed or otherwise independently developed. *See, e.g., Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 490; *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216, 223 (2d Cir. 1971). Consequently, the bargained-for consideration in a trade secret licensing agreement is disclosure, but the bargained-for consideration for a patent license is use in accordance with the license—in this case exclusive use.

> . . . [T]he license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use.
>
> * * *
>
> While trade secret and patent licenses are voluntary arrangements, there are important differences between them. In the former the parties do not contemplate public disclosure and the licensee knows that he has no protection against independent developers. In the latter, disclosure has occurred (or is about to occur) and the licensee relies upon the validity of the patent to protect against competitive use. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U. L. Rev. 17, 30 (1971).

The licensing agreement in this case is neither a pure patent license, in which the *only* bargained-for consideration is exclusive use, nor a pure trade secret license, in which the *only* bargained-for consideration is disclosure. The contract petitioner negotiated with Quick Point is a licensing agreement under a pending patent application similar to the one this Court considered in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, where the bargained-for consideration is a combination of disclosure and exclusive use. *See Lear, Inc.* v. *Adkins*, *supra*, at 682, n. 2 (White, J., concurring in part).

Like Lear, Quick Point bargained first for the disclosure of petitioner's idea and the immediate right to manufacture and sell petitioner's device during the time petitioner's patent application was pending, and secondly for the "exclusive right" to manufacture and sell the device once the contemplated patent was granted. *See Lear, Inc.* v. *Adkins*, *supra*, at 682, n. 2 (White, J., concurring in part).

As the Eighth Circuit correctly recognized (App. 68), petitioner's agreement with Quick Point is understandable only as a patent application license. The fact that Quick Point whether out of generosity [11] or be-because of outside counsel's misinterpretation of its rights and liabilities under the licensing agreement,[12]

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[11] Until the late 1960's, Quick Point continued to be the only manufacturer of petitioner's keyholder. During this period, Quick Point was, in fact, able to enjoy the "exclusive right" bargained for under its contract with petitioner, but this exclusivity resulted from chance marketplace conditions and not from any legal right to exclusivity bestowed by virtue of the contract with petitioner.

During the late 1960's, Quick Point's competitors began producing keyholders essentially the same as that which petitioner had failed to patent. (App. 20.) As Quick Point saw its market share continue to erode, it understandably felt more impelled to seek termination of its royalty payments than it had in earlier years when it faced no similar threat to its market position.

[12] Petitioner relies upon a letter written to Mr. Leopoldi by outside counsel (not an officer of respondent) with regard to a pending patent application filed by Mr. Leopoldi (not petitioner) as support for the proposition that Quick Point believed it was required to continue paying royalties to petitioner even though a patent on petitioner's invention never issued. (App. 20.) This reliance is misplaced. Counsel's opinion was his own, and it was erroneous. It was drafted five years after the original agreement and during

continued to pay royalties after 1961, when petitioner abandoned her application, in no way affects the character of the agreement as a license under a pending patent application.

D. The Issue Before This Court Is Narrowly Confined to the Question of Indefinite Royalty Payments Pursuant to Contracts Dealing With Patent Application Licenses.

This case does *not* concern a trade secret license such as that considered in *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd per curiam*, 280 F.2d 197 (2d Cir. 1960).[13] Contrary to petitioner's assertions (Br. 33), this case does not concern licensing agreements for disclosure of non-copyrightable ideas such

the pendency of the patent application which both parties still thought would be granted, and which had to be granted if Quick Point was to have the "exclusive right" for which it had bargained. It is thus not reliable evidence of the parties' intent at the time they negotiated their licensing agreement. The second half of Quick Point's bargained-for consideration—exclusive use—failed to be realized when petitioner abandoned her patent application. This failure of consideration could, in and of itself, have discharged respondent's obligation to provide further royalty payments to petitioner. *See infra* at 48-53. When Quick Point was later correctly advised that it could cease paying royalties, it did so and immediately sought a declaratory judgment to that effect.

[13] Petitioner relies heavily on *Warner-Lambert* to support her position, but *Warner-Lambert* is readily distinguishable from this case. *Warner-Lambert* did not involve a patent, a patent application license, or a contract made with specific reference to a patent application. What it did involve was a trade secret which defendant's predecessors disclosed to plaintiff's predecessor in return for continuing royalty payments. Unlike the present case, the defendant there, as the trade secret owner, at no time filed a patent application on its discovery and its secret formula clearly constituted a *bona fide* trade secret.

as television formats. Contrary to petitioner's assertions (Br. 33) and its statement of the issues presented in this case (Br. 2), the decision below would not render unenforceable all licensing agreements for unpatented ideas which become public. Nor does the decision below render unenforceable or otherwise involve the type of complex, high technology packaged know-how licensing agreements which are the particular focus of the amicus curiae brief of The American Patent Law Association.

The decision below speaks only to the obligation of a *patent application licensee* to continue paying royalties indefinitely on the one item which is the subject of its license, long *after* the patent application upon which its licensing agreement was based was finally abandoned,[14] and the respondent's competitors are freely producing the item. It is this issue which the Eighth

[14] Petitioner has also incorrectly contended that the decision below renders unenforceable every license of a pending patent application. (Pet. for Cert. 17.) This specific issue was not even raised, much less decided, in the present action. From 1956 to 1961, when petitioner's patent application was pending, Quick Point paid all royalties due under the license. Quick Point has never contested these payments.

Although petitioner incorrectly contends further that the court below decided the question this Court left undecided in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, there is nothing in the Eighth Circuit's opinion which concerns the enforceability of royalties *during the pendency of a patent application*, which is the specific issue this Court raised, but left undecided, in *Lear. Id.* at 674-75.

Quick Point does not seek any refund of the substantial royalties it has already paid to petitioner over a period of nineteen years. The only payments at issue in this case are *future continuing* payments to which petitioner, an unsuccessful patent applicant, claims she is entitled even though she could not as a *bona fide* patentee lawfully claim such payments. *See infra* at 28.

Circuit decided. It is this narrow issue which is before this Court.[15]

II. A CONTRACTUAL PROVISION REQUIRING A PATENT APPLICATION LICENSEE TO CONTINUE PAYING ROYALTIES INDEFINITELY ON THE SUBJECT MATTER OF AN ABANDONED PATENT APPLICATION CONFLICTS WITH THE OBJECTIVES OF THE PATENT LAWS OF THE UNITED STATES AND IS THEREFORE UNENFORCEABLE.

Article I, Section 8, clause 8 of the Constitution grants to Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . ."

Pursuant to this clause, Congress enacted the patent laws under which the inventor of a new, useful, and non-obvious invention may obtain a patent on his invention. 35 U.S.C. §§ 101-103, 154 (1970). In return for disclosure of his invention, the inventor obtains the right to exclude others from making, using, or selling his invention for seventeen years, 35 U.S.C. § 154 (1970), *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 477-78, and may assign this exclusive right to others to exploit in his stead, 35 U.S.C. § 261 (1970).

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[15] Amicus curiae, The Patent, Trademark and Copyright Section of the State Bar of Texas also urges this Court to consider only the narrow issue presented by the record and the decision below. (Br. 3, 15.) This is appropriate, for as shown above, the broad question petitioner urges this Court to decide was never considered, much less decided, by the court below and is not raised by this record. Yet as the briefs of the other amici curiae show, the broad question petitioner urges this Court to consider in the context of this narrow record involves complex questions of substantial economic and political importance for which a full record from the courts below is especially critical. Where such a record is lacking "sound principles . . . [dictate] that the Court not render a decision on questions unnecessary to the disposition of the case." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 678-79 (White, J., concurring in part).

This Court has firmly established that a state cannot, under the guise of any law, "give protection of a kind that clashes with the objectives of the federal patent laws." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231. Enforcement of petitioner's alleged contractual right to continue collecting royalty payments indefinitely on her unpatented device would not only undermine pro-competitive policy objectives consistently endorsed by this Court (*see infra* at 35-41), but would also conflict directly with the objectives of the federal patent laws.

A. Enforcement of the Contractual Provision in This Case Would Create Substantial Incentives to Avoid Recourse to the Patent System, Thereby Undermining the Preeminent Patent Law Objective of Encouraging the Disclosure of New Inventions.

The primary objective of the patent laws is to promote material and scientific progress by providing to inventors of patentable products monopoly rights for a limited period of time in return for disclosure of their patentable inventions. *See, e.g., Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U.S. 249, 255. As this Court has repeatedly recognized, this disclosure requirement is at the heart of the patent system, for it is disclosure which stimulates ideas and the development of further significant advances in the art. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480-81.

The strong federal policy favoring disclosure of inventions is furthered by encouraging inventors to apply for and obtain patents on patentable inventions. As a result, any state law (or private contractual obligation enforced by state law) which causes a "substantial risk" that inventors of devices thought to be patentable would avoid seeking patent protection for their

inventions conflicts with the federal patent laws and cannot be enforced. *Kewanee Oil Co.* v. *Bicron Corp., supra,* 416 U.S. at 489.[16]

This risk is present in this case. If petitioner's position is accepted, inventors such as Aronson who believe their inventions to be patentable will have every incentive to license their inventions during the period their patent applications are pending, and then abandon their applications after they have obtained from their licensees favorable licensing agreements providing for royalty payments for periods of time in excess of those which are available to *bona fide* patentees.

A *bona fide* patentee may use the leverage of his patent to obtain royalties from a licensee for a maximum of seventeen years. *Brulotte* v. *Thys Co.,* 379 U.S. 29, 33.[17] Petitioner, however, urges this Court to find that she was entitled to use the leverage of her patent application to exact continuing royalties for an indefinite period of time despite the fact that she would not have been entitled to such royalties had she not abandoned[18] her application and had instead secured a patent.

[16] Petitioner agrees that any contractual provision which causes diversion from the patent system is unenforceable, but contends (citing only the dissenting opinion below) that there is no possibility of diversion in this case. (Br. 12-13.) This conclusion is shared by the dissent below (App. 81), and by the United States. (Br. 14.) Respondent here contends this is incorrect.

[17] *Brulotte* v. *Thys* is one of a long series of decisions in which this Court has established that state contract law may not create any exclusionary rights in the subject matter of expired patents. *See, e.g., Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100, 136-38; *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 256-57; *Kellogg Co.* v. *National Biscuit Co.,* 305 U.S. 111, 119-20; *Singer Mfg. Co.* v. *June Mfg. Co.,* 163 U.S. 169, 185.

Unlike a typical trade secret agreement, in which the licensor never seeks patent protection but instead relies on trade secret protection as an *alternative* to the patent system, *see, e.g., Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd per curiam,* 280 F.2d 197 (2d Cir. 1960), petitioner in this case first filed a patent application, used this pending patent application as leverage to obtain a highly favorable licensing agreement providing for continuing royalty payments, and later abandoned the patent application which had given her this leverage.[19]

[18] Abandonment is defined as failure to prosecute a patent application within six months of action thereon by the Patent Office. 35 U.S.C. § 133 (1970); *see* 37 C.F.R. §§ 1.135-138 (1977).

[19] As Judge Friendly implicitly recognized in *Painton & Co.* v. *Bourns, Inc.,* 442 F.2d 216 (2d Cir. 1971), this situation must be carefully distinguished from the typical trade secret licensing situation in which a patent application is never filed. *Id.* at 225.

This is true, at least in part, because the rights of an inventor under a pending patent application have great prospective value. *Hobbs* v. *United States,* 376 F.2d 488, 493 (5th Cir. 1967); *Mullins Mfg. Co.* v. *Booth,* 125 F.2d 660, 664 (6th Cir. 1942).

In a typical trade secret licensing agreement, the licensee knows that his licensor is unable to guarantee him exclusive use of the article and makes his bargain accordingly. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 30 (1971); *see Dr. Miles Medical Co.* v. *John D. Park & Sons Co.,* 220 U.S. 373, 402. In contrast, where an inventor offers to license an article which is the subject of a pending patent application, the licensee also bargains for the future right to exclusive use of the invention for which the licensor can extract greater royalty payments than it could if the licensee were bargaining only for disclosure. *See Painton & Co.* v. *Bourns, Inc.,* 442 F.2d 216, 224 (2d Cir. 1971). This is especially true, where, as here, the licensed

From a business perspective, petitioner made a wise decision. Had the patent for which petitioner applied been granted in 1960 (*i.e.,* within five years), she would have been able to collect royalties at the rate of 5% only until 1977. Had the patent been granted in 1961 (the year Aronson finally abandoned her application), petitioner would have been able to collect royalties at a rate of 2½% only until 1978. Petitioner, having abandoned her application in 1961, now seeks to continue collecting royalties at the 2½% rate for an indefinite period of time, far in excess of the seventeen years to which she would have been entitled had she actually obtained a patent on her keyholder.

Petitioner, in effect, seeks rights as the holder of an abandoned patent application which exceed those of a

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invention may be readily copied by competitors, and the right to disclosure is likely to be a short-lived benefit. Thus, although a licensee normally will not agree to pay as much for rights under a pending patent application as it would for a patent license, it will pay more for such rights than it will for mere disclosure under a trade secret license.

Furthermore, the presence of a pending patent application may exert an *in terrorem* effect on potential competitors and licensees. It may induce a manufacturing firm such as Quick Point to secure a license and pay royalties for a given product where it would not otherwise do so. This is because a pending patent application gives an inventor/licensor such as Aronson the power to go to one of the manufacturer's competitors and offer it the future exclusive right to manufacture its article if the first manufacturer does not meet its asking price. If the product offered is of sufficient value to the first manufacturer and it does not want to risk being foreclosed from producing the product in the future, it will be likely to accept the inventor/licensor's royalty terms rather than forego the future opportunity to compete.

Thus, contrary to the assumptions expressed in the dissenting opinion below (App. 81), the licensor is able to exert more leverage in negotiating royalties than is the licensee.

bona fide patentee. Although petitioner abandoned her application, she has already obtained from Quick Point royalties for nineteen years. If petitioner prevails in this action, she will be able to collect royalties indefinitely. "The result would be that while federal law grants only . . . 17 years' protection to genuine inventions . . . States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated." *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225, 232.

This Court has held that the owner of a valid patent may not validly contract for payment of royalties beyond the patent period. *Brulotte* v. *Thys Co.,* 379 U.S. 29, 33. Moreover, where a patent is granted, a patent licensor runs a high risk of having his patent challenged and ultimately declared invalid.[20] If a patent is declared invalid, licensees may not only avoid paying future royalties, but they also may be relieved of the obligation to pay most past royalties due. *See Lear, Inc.* v. *Adkins,* 395 U.S. 653, 672-73.[21]

If a patent application licensor such as petitioner, after having obtained from its licensee a promise to

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[20] "[M]ore than 80% of patent infringement actions on appeal result in a holding that the patent sued upon is invalid." Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 31 (1971).

[21] As this Court noted in *Blonder-Tongue* v. *University Foundation,* 402 U.S. 313, "*Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties." *Id.* at 346.

continue paying royalties on the use of a given item indefinitely, could avoid the consequences of the *Lear* decision by later abandoning the patent application, the licensor would have everything to gain and nothing to lose by doing so.[22] Instead of wholeheartedly attempting to patent his invention, the licensor would have an incentive to exploit his invention through private contractual relationships enforced by the states. Consequently, "[p]rivate business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant." *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 667.

The contract for continuing royalties which petitioner seeks to enforce clearly creates a "substantial risk" of diverting inventions from the patent system. Consequently, this contract "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress," *Hines* v. *Davidowitz,* 312 U.S. 52, 67, and is unenforceable under the principles

[22] Contrary to the assertions of the United States (Br. 14), the dual royalty provision did not give petitioner every incentive to prosecute her patent application. Petitioner would have collected a higher royalty if she had succeeded in obtaining a patent within five years. Consequently, until 1961, petitioner had some incentive to seek a patent on her device. After 1961, however, petitioner had no such incentive because, under her contention, she would collect 2½% in royalties thereafter whether or not she obtained a patent. At this point she would profit more by not actively continuing to seek a patent because she would, if she obtained a patent, be allowed to collect her 2½% in royalties for only seventeen years and subject herself to the further possibility of Quick Point challenging the patent. While none of the discussion above is meant to imply bad faith on the part of the petitioner, it is, nevertheless, true that, on her contention, petitioner, by 1961, had everything to gain and nothing to lose by abandoning further efforts to obtain a patent on her keyholder.

recently enunciated by this Court in *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470, 489.

B. Non-enforcement of This Licensing Agreement, Which, If Enforced, Would Require the Continued Payment of Royalties Far Into the Future, Would Not Discourage Invention.

Contrary to petitioner's contentions (Br. 13-15), nonenforcement of the licensing agreement at issue in this case would not discourage invention because this case does not concern the viability of either know-how licensing agreements or trade secret licenses in general. Quick Point does not contend that petitioner is entitled to no compensation for disclosing and licensing her invention. Nor does Quick Point contest petitioner's entitlement to substantial royalty payments. The question presented in this case is not *whether* a trade secret license may be enforced but rather *how long* a *patent application licensor* may continue to collect royalties on the subject matter of an abandoned patent application.[23]

[23] When seen from this perspective, the argument of both amicus and petitioner with regard to inducing lump sum payments (Pet. Br. 13, U.S. Br. 22-24) becomes irrelevant to the disposition of this case. If this Court holds that a patent application licensee can exact royalty payments for no longer than the seventeen-year period allowed to a *bona fide* patentee, the licensor could still exact royalties for a seventeen-year period. No short term or lump sum payments would be involved.

Alternatively, were this Court to hold that a patent application licensor could not collect any royalties after his application were abandoned, this would not necessarily induce lump sum, "up-front" payments. The licensor and licensee could still tie royalty payments to the actual sale of the product, and although the royalties might be negotiated at a higher rate than would be true for an agreement of longer duration, there is no more speculation required in setting royalty rates at an appropriate level in the latter case than in the former.

Quick Point already has paid royalties to petitioner for nineteen years. During the five-year pendency of petitioner's patent application, she collected approximately $27,000 in royalty payments from Quick Point. (App. 19.) Total royalty payments exceed $200,000. (App. 19.) The import of petitioner's arguments (*see* Br. 13-15), and those of amicus United States (Br. 11-13), is that such sums would not provide sufficient incentive for inventors to develop and market new products.

In effect, petitioner asks that this Court adopt the argument it rejected in *Lear, Inc.* v. *Adkins,* 395 U.S. 653. In *Lear,* the Court considered whether Adkins, an inventor, was entitled to collect royalties for the entire contractual period in return for pre-issuance disclosure of his invention to Lear. The Court decided he could not.

> The inventor does not merely argue that since Lear obtained privileged access to his ideas *before 1960,* the company should be required to pay royalties accruing *before 1960* regardless of the validity of the patent which ultimately issued. He also argues that since Lear obtained special benefits before 1960, it should also pay royalties during the entire patent period (1960-1977), without regard to the validity of the Patent Office's grant. We cannot accept so broad an argument. *Id.* at 672. (Emphasis in original.)

Petitioner, like Adkins, seeks to collect royalties not only for the period during which her application was pending but also for a period long after her idea had been rejected as unpatentable; she contends that if her agreement providing for *perpetual* royalties is not enforced, inventors will be discouraged from developing and marketing new products, thereby undermining innovation and the commercial exploitation of new ideas.

Quick Point does not question the need for encouraging such innovation; it does, however, submit that non-enforcement of *perpetual* royalty payments made with respect to a specific patent application for a period extending far beyond that to which petitioner would be entitled as a *bona fide* patent licensor, is neither required to encourage innovation nor allowable under the patent laws.

III. A CONTRACT REQUIRING A PATENT APPLICATION LICENSEE TO CONTINUE PAYING ROYALTIES INDEFINITELY ON THE SUBJECT MATTER OF AN ABANDONED PATENT APPLICATION, WHERE THE SUBJECT MATTER OF THE LICENSE IS NOT A TRADE SECRET AND IS BEING FREELY PRODUCED BY THE LICENSEE'S COMPETITORS, FRUSTRATES NATIONAL COMPETITION POLICY.

A. Federal Policy Requires Full and Free Competition in the Use of Ideas in the Public Domain.

The patent system, insofar as it confers monopoly powers, is a limited exception to the policy of free competition which lies at the heart of our economic and political system. *Precision Instrument Manufacturing Co.* v. *Automotive Maintenance Machinery Co.,* 324 U.S. 806, 816. Accordingly, this Court has recognized the exceptional position of the patent system within our economy and has prohibited any attempt to broaden the temporal or substantive scope of the patent monopoly. *Blonder-Tongue Laboratories, Inc.* v. *University Foundation,* 402 U.S. 313, 343.[24]

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[24] *See, e.g., International Salt Co.* v. *United States,* 332 U.S. 392, 395-96; *Morton Salt Co.* v. *G. S. Suppiger Co.,* 314 U.S. 488, 491-92; *Ethyl Gasoline Corp.* v. *United States,* 309 U.S. 436, 455-59; *International Business Machines Corp.* v. *United States,* 298 U.S. 131, 140; *Carbice Corp. of America* v. *American Patents Corp.,* 283 U.S. 27, 31; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.,* 243 U.S. 502, 510-11.

Also for this reason, this Court has been reluctant to uphold state-created or enforced rights which in any way impede "full and free competition in the use of ideas which are in reality a part of the public domain." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670. This basic policy, traceable to the writings of Thomas Jefferson, *see Graham* v. *John Deere Co.*, 383 U.S. 1, 7-9,[25] has been endorsed consistently by this Court.

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[25] The basic philosophical premise underlying this policy position is that disclosed ideas are inherently free, that material and scientific progress will in general be maximized by the free and unfettered exchange of ideas, and that the exclusive right to use and exploit ideas is a gift from society which must be narrowly limited to the purpose of inducing persons "to bring forth new knowledge." *Graham* v. *John Deere Co.*, 383 U.S. 1, 9. As Thomas Jefferson so eloquently stated:

> If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot disposess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society, without claim or complaint from any body. VI Writings of Thomas Jefferson, at 180-81 (Washington ed.), quoted in *Graham* v. *John Deere Co.*, 383 U.S. at 8-9, n.2.

Forty years ago, in *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 122, the Court observed that "[s]haring in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all —and in the free exercise of which the consuming public is deeply interested."

More recently, in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, the Court, making explicit what it had implied in *Kellogg*, concluded that a state could not bar "free access to copy whatever the federal patent and copyright laws leave in the public domain." 376 U.S. at 237. This conclusion was rooted firmly in the Court's perception of the complex interplay between the patent laws and the broader national policy of promoting free competition wherever possible, for as the Court explained in *Sears* (376 U.S. at 230-31):

> . . . *[T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.* Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws. (Emphasis added; footnotes omitted.)

Five years after deciding *Sears* and *Compco*, the Court, in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, reaffirmed its position that there is a "strong federal policy favor-

ing free competition in ideas which do not merit patent protection," *id.* at 656, and concluded, in a factual context similar to that in the present case,[26] that "the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." *Id.* at 670. Consequently, the Court held that "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." *Id.* at 668.

[26] In *Lear*, Adkins, the inventor of an improved method of constructing gyroscopes, applied for a patent on the process in 1954, and in 1955 entered into a licensing agreement with Lear. In 1957, Lear refused to pay royalties, claiming that Adkins' gyroscope was fully anticipated in prior art and therefore was unpatentable. In 1960, Adkins' patent issued, Adkins sued to collect royalties for the entire patent period and Lear defended on the grounds of patent invalidity. This Court granted certiorari to reconsider the licensee estoppel doctrine "in the light of [its] recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection." 395 U.S. at 656. After overturning the doctrine of licensee estoppel, the Court held that enforcing a contractual provision requiring the payment of royalties on the subject of an invalid patent "would undermine the strong federal policy favoring full and free use of ideas in the public domain" and therefore could not be given effect. 395 U.S. at 674.

Contrary to petitioner's contentions (*see* Br. 20-23), there is no distinction between the situation in *Lear*, where a patent application was licensed, a patent issued, and the patent was then declared invalid and the situation here, where a patent application was licensed, the Patent Office refused to issue a patent, and the patent application was abandoned. In both cases, the licensed items are in the public domain, *see Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 263 (Frankfurter, J., dissenting), *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231, and therefore both may be produced by anyone who desires to do so. *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 237; *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231.

Again, in *Goldstein* v. *California*, 412 U.S. 546, the Court explained that states could not be allowed to extend patent-type rights to holders of unpatented articles because such action would disturb the delicate balance Congress had drawn between the need to stimulate invention and the need to maximize competition. This Court said (412 U.S. at 569-70):

> In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free. The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution.

Finally, in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, this Court, while holding that state trade secret law was not preempted by federal patent law, cited with approval its previous decisions in *Sears* and *Compco*, noting that trade secrets are by definition not in the public domain. 416 U.S. at 484. Thus, this Court in *Kewanee* reiterated its support for the basic proposition that ideas in the public domain must be available in free and full competition without any state-created or enforced impediment, though "ideas in the public domain" was defined so as to exclude trade secrets, since trade secrets by their very nature exist only when maintained in secrecy. *Id.; see* Oppenheim, *The Pa-*

tent-Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? or Antitrust Supremacy?, 15 Idea 1, 20 (1971) ("[i]deas in general circulation are obviously in the public domain").[27]

Read together, the decisions of this Court establish that if an idea has been disclosed and is neither a trade secret nor patented, it is in the public domain. In this situation this Court has held that there is a strong federal policy to ensure free and full competition in the use of such ideas "lest in the constant demand for new appliances the heavy hand of tribute be laid on each slight technological advance in an art," *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230, *quoting Cuno Engineering Corp.* v. *Automatic Devices Corp.*, 314 U.S. 84, and the finely-tuned balance between the patent system and the mandate for a competitive economy be undermined. *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230-31. As is shown below, enforcement of the contract right to indeterminable payments claimed by petitioner would undercut these longstanding principles, and, in so doing, create anti-competitive influences inimical to our free market economy.

[27] This interpretation appears to comport with the position taken in a recent review of the subject undertaken by one Senate subcommittee. On February 5, 1976, the Senate Subcommittee on Patents, Trademarks and Copyrights of the Senate Judiciary Committee approved S. 2255, Section 301 of which dealt explicitly with patent law preemption. The Subcommittee explained (S. Rep. No. 642, 94th Cong., 1st Sess., 43 (1976)):

> This section [section 301] provides, first, that title 35, shall not be construed to preempt state law of trade secrets. The latter term will be defined by the courts.
>
> Subsection (b) states that the language of subsection (a) does not authorize "any state to grant any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation." Nothing contained in either subsection of section 301 shall be interpreted as altering or qualifying in any respect the holdings of the Supreme Court in *Kewanee Oil Company* v. *Bicron Corporation; Lear, Inc.* v. *Adkins; Compco Corp.* v. *Day-Brite Lighting, Inc.*, and *Sears Roebuck & Co.* v. *Stiffel Co.*

The Senate passed the bill, but the House did not act on the legislation and S. 2255 died when Congress adjourned. The Subcommittee's explanation of Section 301, does, however, show some Congressional support for the view that true trade secret protection is not inconsistent with the general rule favoring free competition in the use of ideas in the public domain.

B. Petitioner's Keyholder Is an Idea in the Public Domain; Enforcing a Contractual Provision for Continuing Royalties on the Subject Matter of an Abandoned Patent Application Where the Subject Matter Is in General Circulation Undermines the Federal Policy in Favor of Free and Full Use of Ideas in the Public Domain and Conflicts With National Competition Policy.

Petitioner's keyholder, like the lighting fixtures in *Sears* and *Compco*, is an idea in the public domain. Like the lighting fixtures in *Sears* and *Compco*, petitioner's keyholder is unpatented. Like the lighting fixtures in *Sears* and *Compco*, petitioner's keyholder was fully and rightfully disclosed as soon as it was marketed. Like the lighting fixtures in *Sears* and *Compco*, petitioner's invention is now in general circulation, and competitors are freely producing the item. Unlike the secret industrial process this Court considered in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, petitioner's unpatented idea is not a trade secret. Rather, it is an idea in the public domain with respect to which there is to be free and full competition, unfettered by conflicting state law. *See Lear, Inc.* v. *Adkins*, 395 U.S. 653; *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225; *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234.

A state may seek to impede competition in the use of ideas in the public domain not only through direct means such as the enforcement of unfair competition laws, *see Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, but also by enforcing contractual provisions contrary to the strong federal policy of encouraging open competition with respect to such ideas. *See Lear, Inc.* v. *Adkins*, 395 U.S. 653; *Brulotte* v. *Thys Co.*, 379 U.S. 29. As the Court explained in *Northern Pacific Railway Co.* v. *United States*, 356 U.S. 1, 4-5:

> The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competition forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition. And to this end it prohibits "Every contract, combination . . . or conspiracy, in restraint of trade or commerce among the several States."

Thus, a contractual provision requiring the continuing payment of royalties on an unpatented device in general circulation, no less than state unfair competition laws, may exert a cloistering effect on free markets, *see Lear, Inc.* v. *Adkins*, 395 U.S. 653, and such influences have no more place here than they did in *Brulotte* v. *Thys Co.*, 379 U.S. 29, 32-33.

Where state contract law conflicts with federal policies ensuring the availability of free markets for ideas such as petitioner's keyholder, state law must give way to federal policy, for otherwise "the public may continually be required to pay tribute to would-be monopolists without need or justification." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670. Such tribute is what petitioner seeks to obtain in this case; such tribute, if allowed to be exacted will undermine the federal competitive mandate, just as this Court concluded it did in *Lear*.

Enforcing royalty payments for use of an invention during the period a patent application is pending may well be justified on both economic and equitable grounds because the licensor, by disclosing his invention to a licensee, will have provided that licensee an important headstart advantage for which the licensee should pay. *See Lear, Inc.* v. *Adkins*, 395 U.S. 653, 671-72, 682, n. 2 (White, J., concurring in part); Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 Harv. L. Rev. 1432, 1445, 1451-52 (1967).

However, just as pre-issuance and post-issuance patent royalties stand on a different footing, *see Lear, Inc.* v. *Adkins*, 395 U.S. 653, 682, n. 2 (White, J., concurring in part), so also do pre- and post-rejection royalties. After the patent application upon which the licensing agreement was predicated is denied, the second half of the licensee's bargained-for consideration—the right to exclusive use of the invention—disappears, because the licensor, having been refused a patent, will never have this exclusive right to convey. After this time, any royalties exacted for further use of the invention will be excessive because such royalties will include payment for exclusive use as well as for disclosure. The

licensor cannot convey the right to such exclusive use at this point, and the licensee no longer has any hope of obtaining the exclusive right for which it bargained.

The anti-competitive effects of requiring a licensee to continue paying excessive royalties long after his licensor has abandoned the application upon which the parties' licensing agreement was predicated are especially severe where, as here, the item which was the subject of the licensing agreement is being freely produced by the licensee's competitors. Coerced payment of such royalties for an item in general circulation adds to the cost of production and can, in certain circumstances, be the marginal increment to costs which makes production not economically viable. To the extent that competition is inhibited by requiring one producer to pay royalties, prices will tend to be higher for all producers and the ultimate burden falls on the public.

In this case, the excessive royalties paid by respondent add to its cost of producing the keyholder, making it increasingly difficult for it to compete in the keyholder market. Quick Point's share of the market has already declined and will probably continue to do so if it is forced to continue paying royalties on an item for which it is not receiving its bargained-for consideration (exclusive use) while its competitors remain free to produce petitioner's keyholder free of charge. The elimination of even one competitor may provide a basis for antitrust liability, *see Klor's, Inc.* v. *Broadway-Hale Stores, Inc.*, 359 U.S. 207, 213. Consequently, "[licensors] having the power to place licensees needing to compete in a potentially ruinous or uneconomic situation should not be condoned." Worthing, *Know-*

How Misuse: A Potential Weapon for Licensees, 53 J. Pat. Off. Soc'y 177, 187 (1971).[23]

Thus, while it may be justifiable to allow a licensor to collect royalties on an unpatented idea during the pendency of a patent application, enforcement of royalties long after a patent application has been abandoned and the subject is fully in the public domain would have the undesirable effect of funneling excessive rewards to the licensor at the expense of the licensee, for "[a] licensor's exacting royalties for sales or use of know-how after its period of commercial vitality has expired bears little relation to the licensor's investment in the know-how development or the expected return from its use." Worthing, *Know-How*

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[23] Recognition of the harmful anti-competitive effects which could result from requiring licensees to continue paying royalties after the licensed item has lost any secrecy it might once have had has prompted numerous leading legal scholars to favor cessation of royalty payments on non-patented items once the items have been disclosed and are in general circulation. *See, e.g.*, Adelman, *An Antitrust Decision: Lear* v. *Adkins*, 58 A.B.A.J. 45, 46 (1972); Worthing, *Know-How Misuse: A Potential Weapon for Licensees*, 53 J. Pat. Off. Soc'y 177, 190-93 (1971); Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 989 (1974). *See also Choisser Research Corp.* v. *Electronic Vision Corp.*, 173 U.S.P.Q. 234 (Cal. Super. Ct. 1972).

The same concern for protecting competition and minimizing the perpetuation of monopoly influences with respect to ideas is manifest in the practice in the lower courts of limiting injunctions, even in true trade secret cases, to a period measured by the "head-start" advantage which should be accorded the developer of a trade secret. *See, e.g., Winston Research Corp.* v. *Minnesota Mining and Manufacturing Co.*, 350 F.2d 134, 143 (9th Cir. 1965); *Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d Cir. 1949). *See generally* Comment, *The Viability of Trade Secret Protection After Lear* v. *Adkins*, 16 Vill. L. Rev. 551, 563-66 (1971).

Misuse: A Potential Weapon for Licensees, 53 J. Pat. Off. Soc'y 177, 191 (1971). Consequently, the licensee will be placed in an adverse position vis-à-vis his competitors and the very anti-competitive effects this Court has consistently attempted to prevent, *see* Goldstein, *The Competitive Mandate: From Sears to Lear*, 59 Calif. L. Rev. 873, 873-86 (1971), will be encouraged.

IV. THIS CONTRACT, WHICH, IF ENFORCED, WOULD REQUIRE QUICK POINT TO CONTINUE PAYING ROYALTIES INDEFINITELY ON THE SUBJECT MATTER OF AN ABANDONED PATENT APPLICATION CONFLICTS WITH BOTH NATIONAL COMPETITION POLICY IN GENERAL AND THE UNITED STATES PATENT LAWS IN PARTICULAR, AND IS THEREFORE PREEMPTED BY FEDERAL LAW AND POLICY.

The heart of the issue in this case, as it was in *Lear, Inc.* v. *Adkins*, is the accommodation of the competing demands of the common law of contracts and the federal law requiring "full and free competition in the use of ideas which are in reality a part of the public domain." 395 U.S. at 670. Where the two conflict, state law is preempted and must give way to overriding federal law and policy. *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 673-74.

In this case, as in *Lear*, a contractual provision calling for continued payment of royalties on an item for which patent status was sought and later denied cannot be enforced, for to do so would: (1) conflict directly with the patent laws; (2) frustrate overriding federal policies designed to ensure "full and free competition in the use of ideas which are in reality a part of the public domain." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670; (3) upset the economic balance between the promotion of invention and the preservation of free competition which Congress intended to strike in the patent laws, *see Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230; and (4) needlessly introduce harmful anti-competitive influences into the free marketplace of ideas.

"[I]t is 'familiar doctrine' that . . . federal policy 'may not be set at naught, or its benefits denied,' by . . . state law." *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 479-80, *quoting Sola Elec. Co.* v. *Jefferson Elec. Co.*, 317 U.S. 173, 176. Because petitioner's contract, if interpreted to require continuing royalty payments, conflicts directly with the patent laws in particular and national competition policy in general, it is unenforceable under federal law.

The position that petitioner's contract conflicts with, and must therefore yield to, federal law, is underscored by the fact that countervailing state policies and equitable considerations are so weak. This case, unlike *Kewanee Oil Corp.* v. *Bicron Corp.*, 416 U.S. 470, does not require this Court to set aside a body of longstanding state law designed to further legitimate and important state objectives such as the promotion of commercial morality. This case, unlike *Automobile Workers* v. *Russell*, 356 U.S. 634, and *United Construction Workers* v. *Laburnum Construction Corp.*, 347 U.S. 656, does not involve "conduct marked by violence or imminent threats to the public order" and a consequent "compelling state interest . . . in the maintenance of domestic peace." *San Diego Building Trades Council* v. *Garmon*, 359 U.S. 236, 247. This case, unlike *Lear, Inc.* v. *Adkins*, 395 U.S. 653, does not even involve an established rule of state contract law such as licensee estoppel, which this Court found preempted by federal patent law.

Non-enforcement of this contract would not be unjust to petitioner. Although an inventor has the option of

seeking patent or alternative state protection, he is not necessarily entitled to the cumulative benefits afforded by both systems. *See Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 483; *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186; *Pennock* v. *Dialogue*, 2 Peters 1, 18; *Troxel Manufacturing Co.* v. *Schwinn Bicycle Co.*, 465 F.2d 1253, 1258 (6th Cir. 1972); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216, 224-25 (2d Cir. 1971); *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946), *cert. denied*, 328 U.S. 840.

Although it may be equitable to allow an inventor to collect royalties *during* the time his patent application is pending, it is an entirely different matter to require a licensee to continue paying royalties *indefinitely after* the application upon which the licensing agreement was based has been abandoned. Only royalty payments of the latter type are at issue in this case, and these payments, because they conflict with both the patent laws and general pro-competition policy objectives consistently endorsed by this Court, are preempted by overriding federal law and policy.

V. THE CONTRACT SHOULD NOT BE CONSTRUED TO REQUIRE CONTINUING ROYALTY PAYMENTS: SINCE BOTH PARTIES ENTERED INTO THE CONTRACT ASSUMING A PATENT WOULD ISSUE, AND SINCE THIS INTENT WAS FRUSTRATED BY PETITIONER'S FAILURE TO OBTAIN A PATENT, QUICK POINT IS DISCHARGED FROM ANY FURTHER DUTY TO CONTINUE PAYING ROYALTIES TO PETITIONER.

The cardinal rule for construing a contract is to ascertain and give effect to the intent of the parties. *Kansas City, Missouri* v. *Kansas City, Kansas*, 393 F. Supp. 1, 4-5 (W.D. Mo. 1975). In this case, the intent shared by both parties, which became the cornerstone of their

contract, was that a patent would issue on petitioner's keyholder. Because no patent ever issued on petitioner's keyholder, respondent's duty to continue making royalty payments is discharged. *See Drackett Chemical Co.* v. *Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933).

The language of the licensing contract clearly manifests both parties' expectation that a patent on petitioner's keyholder would issue, and that the issuance of this patent was a basic assumption underlying their formation of the contract. In the main body of the agreement, petitioner explicitly promised respondent the "exclusive right" to manufacture and sell the keyholder on which her patent application was pending and agreed that in the event of "infringement" both parties would agree on what action would be taken. (App. 23-24.) As shown *supra* at 21, petitioner could convey the "exclusive right" she promised Quick Point only if she had succeeded in patenting her keyholder. Similarly, "infringement" would become an issue only if petitioner had succeded in obtaining the patent both parties expected to be granted. *See* 35 U.S.C. § 271(a) (1970). Obviously, both parties expected a patent to issue on petitioner's keyholder because any other intent would render meaningless the clauses concerning exclusivity and infringement.

Petitioner, however, completely ignores the exclusivity and infringement language used in the main body of the agreement with Quick Point and contends that an addendum to the contract guarantees her continuing royalties on the keyholder. This addendum, which was

written by the petitioner as an addition to the contract (and not substituted for it, App. 25), states that:

> In the event that the Keyholder Patent Application Number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent ($2\frac{1}{2}\%$) of sales at selling prices, as long as you continue to sell same. (App. 25.)

Petitioner, focusing solely on the last clause of this addendum (*i.e.*, "as long as you continue to sell same") argues that this addendum obligates Quick Point to continue paying royalties as long as it continues to manufacture petitioner's keyholder regardless of whether a patent on the keyholder ever issued. (Br. 25, 27.)

This interpretation does violence to both the language of the addendum and to basic contract doctrine. The addendum does not state that even if petitioner never obtained a patent on its keyholder, Quick Point would still be obligated to pay royalties indefinitely on its manufacture and sale of the keyholder; it states only that if a patent were not obtained *within five years* Quick Point's royalties would be reduced to $2\frac{1}{2}\%$. The addendum assumes that a patent would eventually issue but merely provides for the possibility that the patent would issue at a date more than five years after the date of the license.[29] Contrary to the assumption of amicus United States, the triggering event for reduction of royalties was not the denial of

[29] This was a realistic possibility for the decision of the Board of Patent Appeals denying petitioner's patent application was not made until more than five years after the date of the license. (App. 54.)

a patent *per se* (Br. 14), but rather the failure to obtain a patent *within five years*. The agreement did not require, as the United States contends (Br. 2), that the respondent pay a specified royalty if a patent were granted or, in the alternative, a reduced royalty if no patent were granted. If a patent had been obtained in the sixth year after the parties had signed their agreement, the royalties still would have been reduced to $2\frac{1}{2}\%$. Both parties assumed that a patent would issue; the only question was when.

If petitioner intended Quick Point's obligation to pay royalties to continue without regard to the issuance of a patent *at any time*, she, as drafter of the addendum, was obligated to state this expressly and unambiguously. *See, e.g., Floater Vehicle, Inc.* v. *Tryco Manufacturing Co.*, 497 F.2d 1355, 1358 (C.C.P.A. 1974); *Pipkin* v. *FMC Corp.*, 427 F.2d 353, 357 (5th Cir. 1970); *April Productions, Inc.* v. *G. Schirmer, Inc.*, 308 N.Y. 366, 372, 126 N.E.2d 283, 289 (N.Y. Ct. App. 1955). *See generally* Williston on Contracts § 621, at 760-62 (1961). Instead, petitioner now urges upon this Court an interpretation of her addendum which conflicts directly with the main body of the agreement which she explicitly accepted. In so doing, petitioner ignores settled contract doctrine which requires that different parts of a contract be read in conjunction with one another, that the intent of the parties be gleaned from the entire contract, and that different parts of the contract be harmonized wherever possible. *See, e.g., City of Harlan* v. *Duncan Parking Meter Corp.*, 231 F.2d 840, 841-42 (8th Cir. 1956). *See generally* Williston on Contracts § 618, at 710-11 (1961).

The rule of contract law applicable to this situation is that petitioner's failure to obtain the patent which

formed the explicit basis of their agreement discharges its obligation to continue paying royalties under the contract for, as explained in the Restatement of Contracts § 288 (1932) at 426:

> Where the assumed possibility of a desired object or effect to be attained by either party to a contract forms the basis on which both parties enter into it, and this object or effect is or surely will be frustrated, a promisor who is without fault in causing the frustration, and who is harmed thereby, is discharged from the duty of performing his promise unless a contrary intention appears.[30]

In this case, the parties' licensing agreement explicitly refers to petitioner's patent application, and the assumed acquisition of patent rights by petitioner formed the basis of the parties' agreement. This object was frustrated when petitioner abandoned her patent application seventeen years ago because, as petitioner readily admits, exclusivity may be obtained only under the patent laws (Br. 19), and Quick Point, therefore, never obtained the exclusivity for which it had bargained. (Br. 7, 20.) Quick Point was harmed by the rejection and abandonment of petitioner's application because it thereby lost its "exclusive right" to manufacture and sell petitioner's keyholder. Thus, Quick Point is discharged from having to make further royalty payments under its contract with petitioner.[31]

[30] The best known example of this "frustration of purpose" doctrine is the "Coronation case," *Krell* v. *Henry*, [1903] 2 K.B. 740 (Ct. App.). There the defendant had agreed to rent a flat in London for two stated days on which the coronation processions of Edward VII were scheduled. Due to the illness of the King, the processions did not take place on the days originally scheduled, and the defendant declined to pay the balance of the rent for which he had contracted. The court, finding that the occurrence of the procession was the "foundation" of the contract, held that defendant would be discharged from further obligation to pay under its contract even though the contract was specific as to the dates, and contained no express reference to the coronation procession or to any other purpose to be served by the agreement.

CONCLUSION

For all the foregoing reasons, the judgment of the Eighth Circuit Court of Appeals should be affirmed.

Respectfully submitted,

Erwin N. Griswold
Counsel for Respondent

Of Counsel:

Linda K. Smith
Karen L. Grimm
Jones, Day, Reavis & Pogue
1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

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[31] This result is further supported by the understandable reluctance of the courts to construe contracts so as to require performance for an indefinite time. Promises of performance without a definite time limit should be interpreted to require performance for only a "reasonable" time, *see Freeport Sulphur Co.* v. *Aetna Life Ins. Co.*, 206 F.2d 5, 8 (5th Cir. 1953), 3A Corbin on Contracts § 684, at 231 (1960), for "[p]erpetual contracts, though sometimes sanctioned, are not favored in the law. A construction of a contract conferring a right in perpetuity will be avoided unless compelled by the unequivocal language of the contract." 206 F.2d at 8.

Quick Point has already paid royalties for nineteen years even though it lost all hope of ever obtaining the "exclusive right" to manufacture and sell petitioner's product in 1961 when petitioner abandoned her patent application. Clearly, a "reasonable" time for the payment of royalties has already passed, and construction of the licensing contract to require that respondent continue paying royalties indefinitely despite the fact that it will never obtain the "exclusive right" for which it bargained is neither "compelled by the unequivocal language of the contract," nor justified under standard contract construction doctrines.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978.

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY,
A MISSOURI CORPORATION,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITIONER'S REPLY BRIEF

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
ROBERT S. ROBIN
CHADWELL, KAYSER, RUGGLES,
McGEE & HASTINGS, Ltd.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100

ROBERT E. KNECHTEL
DOMINIK, KNECHTEL,
GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342

J. THOMAS McCARTHY
University of San Francisco
School of Law
San Francisco, California 94117

Gunthorp-Warren Printing Company, Chicago • Financial 6-6565

TABLE OF CONTENTS.

TABLE OF AUTHORITIES.

Cases.

Texts.

Constitution and Rules.

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PETITIONER'S REPLY BRIEF

Nowhere in its brief does Quick Point deal with the real issue in this case: does the enforcement of this contract so conflict with federal policy as to justify federal interference with state law? *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470, 479-80 (1974), held that state law should be interfered with *only* if its enforcement would clash with the purposes and objectives of the constitutional policy reflected in the federal patent law. Those objectives are to encourage invention and the disclosure of inventions to the public. While paying lip service to the statements in *Kewanee*, Quick Point never explains how enforcement of this contract will either discourage invention or discourage public disclosure of inventions. On the contrary, enforcement of agreements of this type will further the objectives

of federal law by *encouraging* invention and public disclosure of inventions.

Instead of dealing with this issue, Quick Point makes factual assertions which are foreclosed by the record and plainly incorrect, and endeavors to weave a legal argument by taking a sentence from one case and a phrase from another, ignoring both the logic and the substantive circumstances under which the statements were made. In doing so, it arrives at legal conclusions which are not only internally inconsistent but directly contrary to the principles enunciated in *Kewanee*. Since the whole of Quick Point's argument is premised upon certain erroneous conclusions, we will deal with those matters first and then reply to the equally fallacious legal and policy arguments made by Quick Point.

ARGUMENT

I.

THE FACTUAL CONCLUSIONS OF QUICK POINT ARE ERRONEOUS.

A. Quick Point's Assertion That Petitioner Is Not and Never Was the Owner of a Trade Secret Is Erroneous and Immaterial.

Quick Point asserts that Aronson "is not—and never has been—a trade secret owner" (Q. P. Br. 18), and therefore the contract was only a patent application license which became unenforceable when Aronson abandoned the application. The premise of this argument is that Aronson's keyholder could not be a trade secret because it was not used in the owner's business and did not lend the owner a competitive advantage (Q. P. Br. 15-17). For this statement Quick Point relies upon the definition of a trade secret contained in the Restatement of Torts § 757.

The absurdity of this argument can best be illustrated by showing the result it would produce in other situations. For example, under Quick Point's argument, a brilliant researcher, whether in a university lab or in his basement, who devised the secret formula for an improved gasoline and licensed it to a major oil company could not enforce the license (even if the formula remained secret) because the researcher never "used" the formula in his business. Obviously, the definition in the Restatement of Torts was intended to describe the ordinary situation in which a business has one of its trade secrets misappropriated and is suing for that tort. 1 Milgrim, TRADE SECRETS § 2.02[1] (1978). Either the definition is not intended to apply in licensing situations such as this, or it must be held that

Aronson "used" the trade secret in her business of making and licensing inventions. See *Sinclair* v. *Aquarius Electronics, Inc.*, 42 Cal. App. 3d 216, 116 Cal. Rptr. 654, 658 (1974). Otherwise, if Quick Point is correct, the whole field of licensing trade secrets by those whose business is inventing would be in jeopardy, a result which would surely be contrary to the purposes of the patent law. As noted in *Kewanee:*

> "Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by *contracting* with a company large enough to develop and exploit it." 416 U. S. at 493 (emphasis added).

There can be no doubt Aronson was the owner of a trade secret at the time the agreement was entered into. The uncontested facts are that the keyholder was a secret prior to the agreement. It had not been disclosed to others except under conditions of confidence and it was disclosed to Quick Point under an obligation of confidence (App. 55). It was also clearly of considerable value.* Quick Point admits that at least part of the "bargained-for consideration" was the "disclosure" of the invention and that Aronson was entitled to substantial royalty payments as compensation for that disclosure (See Q. P. Br. 22-23, 33).

This comports with the use of the term "trade secret" in many cases. For example, in *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d 216, 222 n.2 (2d Cir. 1971), the court of appeals said:

> "Our use of the term 'trade secret' is in the broad sense of any unpatented idea which may be used for industrial or commercial purposes. . . ."

* Quick Point asserts that the keyholder is "simple". Whether it is "simple" or not is irrelevant. Often what later appears "simple" is in reality a most ingenious invention. See *Diamond Rubber Co.* v. *Consolidated Rubber Tire Co.*, 220 U. S. 428, 434 (1911); *Goodyear Tire & Rubber Co.* v. *Ray-O-Vac Co.*, 321 U. S. 275, 279 (1944). Its value is shown by the fact that Quick Point has been very successful in selling Aronson's keyholder, its sales increasing almost continuously since it was first introduced (App. 19, 57).

See also, *Sinclair* v. *Aquarius Electronics, Inc., supra*, 116 Cal. Rptr. at 658. Certainly the keyholder fits that definition.*

But whether or not the keyholder meets the strict requirements of Restatement of Torts § 757 and is thus entitled to be called "trade secret", or even constitutes a "glob of technology" (Q. P. Br. 18, n.6), such that it can be called "know-how" is irrelevant. It had been clear, at least until the court of appeals' decision here, that a trade secret or know-how owner, or the submitter of an idea, could enter into an enforceable contract with respect to that idea or invention. See, *e.g.*, *Painton, supra*, 442 F. 2d 216; *Richter* v. *Westab, Inc.*, 529 F. 2d 896, 902 (6th Cir. 1976); *Desny* v. *Wilder*, 46 Cal. 2d 715, 299 P. 2d 257, 265-67 (1956); *Donahue* v. *Ziv Television Programs, Inc.*, 245 Cal. App. 2d 593, 54 Cal. Rptr. 130, 134 (1966). See also, 2 Milgrim, TRADE SECRETS § 8.03 (1978) and 3 Nimmer, COPYRIGHT § 16.04 (1978). This was true even in the presence of a rejected patent application. *Gesing* v. *Grand Rapids Hardware Co.*, 362 F. 2d 363 (6th Cir. 1966). The issue here is not whether the subject matter of the agreement is technically a "trade secret" but whether the enforcement of the agreement conflicts with the purposes and objectives of the patent law. Since it does not, it is immaterial whether the keyholder is a

* Quick Point argues that this case is distinguishable from *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960), because in *Warner-Lambert* the formula remained a secret for several years and no patent was applied for by the licensor. Those factual differences do exist between the two cases, but under the principle adopted by the court below and urged here by Quick Point, those facts make no difference. The rationale of the decision below, and Quick Point's argument here, is that once an idea, whatever its form (*i.e.*, a formula, a design or a process), is publicly known and not the subject of a patent, it is contrary to the objectives of the patent law to require a licensee to live up to its agreement to pay royalties on the use of that idea. But that rationale is as applicable to a once-secret formula which remained secret for a while after its first use as it is to a secret design which is disclosed to the public upon its first use. At the time the contract dispute arose in *Warner-Lambert* the licensed formula was as much in the "public domain" as the keyholder in this case.

trade secret or simply an idea, the confidential disclosure of which, Quick Point has admitted, entitled Aronson to substantial compensation (Q. P. Br. 33).

B. The Assertion That the Parties Intended That Royalties Cease if No Patent Issued Conflicts with the Findings of Both Courts Below, the Allegations of Quick Point's Complaint and the Record.

Quick Point asserts that the "cardinal rule for construing a contract is to ascertain and give effect to the intent of the parties" (Q. P. Br. 48). It follows that statement with a highly strained argument which comes down to a contention that the contract should be construed as *not* requiring royalty payments after the abandonment of the patent application because, Quick Point surprisingly argues, that was not the intention of the parties.* This assertion is contrary to the facts and totally lacking in merit.

First, both the district court and the court of appeals found the facts to be exactly contrary to Quick Point's argument. The district court found that "the language of the agreement is plain, clear and unequivocal and has no relation as to whether or not

* The argument is primarily based upon the agreement's providing that Quick Point would have "the exclusive right to make and sell" the keyholder. The fact that the license was exclusive does not necessarily mean that it had to be a patent license. It is not uncommon to have an exclusive trade secret or know-how license. See, e.g., *Painton, supra,* 442 F. 2d at 219; *Aktiebolaget Bofors* v. *United States,* 194 F. 2d 145, 147 (D. C. Cir. 1951); and *Pickren* v. *United States,* 378 F. 2d 595, 597 (5th Cir. 1967). There is also no reason that a single agreement cannot provide for the contingencies of a patent either issuing or not issuing. Thus, the obligation to pay the reduced royalty as long as Quick Point made the keyholder is not inconsistent with the notion that if a patent were to issue, Quick Point would be the exclusive licensee under the patent and the parties would agree upon appropriate action in the event infringers appeared. The effect of the agreement was that Aronson was prohibited from licensing its design to anyone else (App. 39) and if a patent issued, the exclusivity granted by the agreement would also entitle Quick Point to be free from competition by others who did not have a license under Aronson's patent.

a patent is ever granted or is not granted". (App. 63, ¶ 2). The court of appeals echoed this finding by stating that: ". . . *the parties here did not expressly condition their agreement on the issuance of a patent, . . .*" (emphasis supplied, App. 73, n.11).

This Court has long recognized what has come to be known as the "two-court rule". Under this rule, the Court will not "undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error". *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U. S. 271, 275 (1949). See also, *United States* v. *Ceccolini,* 435 U. S. 268, 273 (1978), and *Berenyi* v. *Immigration Director,* 385 U. S. 630, 635-36 (1967). Therefore, the fact that the contract was not dependent on the issuance of a patent is correct and controlling here.

In addition, Quick Point's complaint admits—indeed asserts—that the contract obligates Quick Point to continue paying royalties even though no patent issued (App. 5, 6). Nowhere is it alleged that the parties intended the royalties to cease if Aronson failed to obtain a patent. Instead, the entire premise of the complaint is that the contract requires continuing royalties but that such a contract is unenforceable or illegal (See, *e.g.*, App. 5-6, ¶¶ 9, 14). Similarly, the stipulation of facts expressly states that the contract obligated Quick Point to pay the 2½% royalty so long as it continued to sell the keyholder (App. 18). Having both stipulated and affirmatively asserted a contrary position, Quick Point can hardly be heard to raise the contention that it and both courts below have all misinterpreted the contract.

Even if the two-court rule were not applicable and Quick Point had not waived the issue by admitting and premising its complaint on the opposite interpretation of the contract, the contract language and the parties' actions decidedly show that Quick Point's belated contention is totally without merit.

The contract specifically and unequivocally provides that the royalty will continue at 2½% for as long as Quick Point con-

tinues to sell the keyholder (App. 25). There is nothing in the contract which says this obligation will cease when and if it is determined that no patent will issue.

The fact that Quick Point did not stop paying royalties when it became clear no patent would issue is compelling evidence against its present assertion. Obviously, if the parties had not intended for the royalties to continue, Quick Point would not have continued paying them. See *Warner-Lambert, supra,* 178 F. Supp. at 668.

Quick Point's counsel, in a letter dated April 10, 1961, specifically stated that even if no patent were granted Quick Point is obligated to pay the royalties on any keyholder manufactured in accordance with the disclosure of the application. Quick Point now attempts to avoid this clear admission by saying that the attorney was not an officer and thus his statement was not binding on it. But the letter itself states that its purpose is "to confirm Mr. Goessling's warning. . . ." (App. 39) and shows that a copy was sent to Quick Point (App. 40). At no time has Quick Point ever denied the position taken in this letter and the stipulation of uncontested facts states that it was sent to Aronson "on behalf of [Quick Point] . . . ." (App. 19). Under these circumstances, the letter as a matter of law constitutes an admission by Quick Point that the contract obligated it to pay royalties even if no patent were issued. FED. R. EVID. 801; *Gerhart* v. *Henry Disston & Sons, Inc.,* 290 F. 2d 778, 789 (3d Cir. 1961); *Noel* v. *Roberts,* 449 S. W. 2d 572 (Mo. 1970); McCormick, EVIDENCE § 267 at 643-44 (2d ed. 1972).

A letter written by the president of Quick Point, and totally ignored by Quick Point's brief, removes any possible doubt on this point. In that letter, written years after it was known no patent would issue, Mr. Goessling said "Please be advised that we will continue our payments to you as per our original agreement. . . ." (App. 41). If it had been the intention of the parties that payments cease if no patent issued, it is inconceivable that Mr. Goessling would have made that statement.

Finally, Quick Point ignores the circumstances surrounding the drafting and execution of the contract. The addendum reducing the royalty rate from 5% to 2½% was not in the agreement drafted by Mr. Goessling but was added by Aronson after a telephone call from her agent to Goessling (Q. P. Br. 6, 50-51; App. 23-25). If the parties had intended that the issuance of a patent was a condition to Quick Point's obligation to continue the royalties and that the agreement would terminate if no patent issued, it would have been in Aronson's interests not to propose the addendum but instead simply to sign the agreement as proposed by Goessling calling for a 5% royalty. In that way, Aronson would have received 5% royalties until it was definitely decided no patent would issue, even if that took longer than five years. Obviously, Aronson agreed to accept a lower royalty rate in return for something else not in Goessling's draft; that something else being the obligation of Quick Point, in the event no patent issued, to pay royalties as long as Quick Point manufactured the keyholder.

These facts also dispose of Quick Point's "commercial frustration" argument, equally absent from the complaint (Q. P. Br. 48-53). It is clear the commercial frustration doctrine is inapplicable here:

> "Frustration is no defense if it was reasonably foreseeable. The burden of proving that the risk of the frustrating event was not reasonably foreseeable rests with the party seeking to excuse performance of a contractual obligation. It is settled that if parties have contracted with reference to contemplated risks, they may not invoke the doctrine of frustration to escape the obligations." *Gold* v. *Salem Lutheran Home Ass'n,* 53 Cal. 2d 289, 347 P. 2d 687, 689 (1959).

See also, *Lloyd* v. *Murphy,* 25 Cal. 2d 48, 153 P. 2d 47 (1944). This principle, *i.e.,* that commercial frustration will not apply if the intervening event was reasonably foreseeable, is embodied in the doctrine of comercial frustration in this country. See 18 Williston, CONTRACTS § 1954, at 135-36 (3d ed. 1978); 6 Cor-

bin, CONTRACTS § 1354 (1962). More importantly, it is the law in Missouri, *Howard* v. *Nicholson*, 556 S. W. 2d 477, 482 (Mo. App. 1977) ("If the event was reasonably foreseeable then the parties should have provided for its occurrence in the contract and its absence indicates an assumption of risk by the promisor.").

There can be no doubt that when two parties enter into a licensing agreement for an invention on which a patent application has been filed, it is at least reasonably foreseeable that the Patent Office may not grant the patent.* It was incumbent on Quick Point to make continuance of the royalty payments contingent on the issuance of a patent if that is what was intended. Its failure to do so, and the other circumstances, show that the parties contemplated the possibility that no patent would issue, but in that event, wanted the agreement to continue at the lower royalty rate. Quick Point's subsequent conduct under the agreement merely reaffirms this fact.

C. The Obligation to Pay Royalties Is Not Perpetual.

Quick Point persistently and erroneously refers to its obligation to pay Aronson royalties as being "perpetual" or "indefinite" (*e.g.*, Q. P. Br. 2, 5, 27-28, 34-35, 48, 53). The contract is not in any sense perpetual. Such an argument was rejected in *Warner-Lambert, supra*, 178 F. Supp. at 660-62, where, as here, the obligation to pay royalties was co-extensive with the licensee's decision to manufacture the product and thus dependent on acts exclusively within the licensee's control. Quick Point can terminate the obligation by deciding to manufacture no more of these keyholders. In no way can such a contractual obligation be termed perpetual or indefinite. See 1 Williston, CONTRACTS § 38 (3d ed. 1957) and 3 Corbin, CONTRACTS § 553 (1960).

* Between 1951 and 1955, 351,649 patent applications were filed on inventions (as opposed to designs or plants). During that same period 192,651 patents were actually issued. 1960 STATISTICAL ABSTRACT OF THE UNITED STATES 543.

II.

ENFORCEMENT OF THE CONTRACT IS CONSONANT WITH FEDERAL PATENT AND COMPETITION POLICY AND SERVES IMPORTANT STATE INTERESTS AS WELL.

Having constructed the straw man that this contract is solely the license of a patent application, Quick Point proceeds to flail away at it using bits and pieces of various patent and antitrust decisions of this Court for a club. Quick Point's argument, however, is nothing more than sophistry because it is based on an inaccurate premise and, like the court below, it applies words of this Court without analysis of the decisions and policy behind those words.

A. Quick Point's Assertion That Enforcing the Contract Will Cause Diversion from the Federal Patent System Misses the Point and Is Factually Tenuous.

Quick Point argues that enforcing this contract will create substantial incentives to avoid recourse to the federal patent system because inventors "who believe their inventions to be patentable will have every incentive to license their inventions during the period their patent applications are pending, and then abandon their applications after they have obtained from their licensees favorable licensing agreements providing for royalty payments for periods of time in excess of those which are available to *bona fide* patentees." (Q. P. Br. 28).

The test under *Kewanee* is not whether enforcement of this contract will cause *any* diversion from the federal patent system; it is whether or not enforcement will create "a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection. . . ." *Kewanee*, 416 U. S. at 489. *Kewanee* recognized that some diversion from the patent system might occur by enforcing state trade secret law but the Court nevertheless refused to find the state law was pre-

empted. Thus, even assuming inventors with contracts like this one would have an incentive to abandon their patent applications—an assumption which we will show is erroneous—it does not follow under *Kewanee* that enforcement of the contract conflicts with federal patent law.

Assuming, as Quick Point argues, that the question is diversion from obtaining a patent, it is clear there is less likelihood of diversion in this case than in *Kewanee*. In *Kewanee* the Court specifically approved protection for inventions which could have been patented but which are instead kept secret. Enforcing a license agreement where the invention can be kept secret is much more likely to discourage patent applications than enforcing an agreement where first sale of the article by the licensee discloses it to the public.

Indeed, the truly anomalous thing about the decision below and Quick Point's position here is that if the licensed invention were one which did not become public upon sale of the article by the licensee, the inventor could continue to collect royalties even if he abandoned the patent application. Both Quick Point and the court of appeals would enforce an agreement calling for royalties on a patentable invention *if* the invention remains secret, even though the licensor may collect royalties for a much longer period of time than if a patent had been obtained. On the other hand, *if*, as here, the sale of the licensed article renders the invention no longer secret, the court below and Quick Point say the license is not enforceable. Yet in the latter case, the inventor is much less likely to abandon the patent application than he would be in the former where he at least may keep his invention secret.

Quick Point's argument that enforcement of this contract would create incentives to avoid recourse to the patent system also misses the real point made in *Kewanee*. The objective of the patent laws is to promote invention. It does so in two ways: first, encouraging inventors by holding out to them the opportunity to exclude others for 17 years if the invention is patentable, and second, by compelling the public disclosure of the invention in return for granting the patent, thus making it known to the public, which should encourage further invention. Quick Point makes the fallacious argument that any state law which discourages inventors to any degree from obtaining patents must therefore conflict with federal patent policy. But that argument elevates the *means* over the purpose or objective of the patent law. For example, a state law financing research on the condition that any resulting invention be disclosed and dedicated to the public, instead of patented, would not be inconsistent with the purposes of the patent law. Obtaining letters patent is not the important thing. The objective is to foster inventions and their disclosure to the public.* Both the patent law and state law may accomplish these goals without conflicting, and enforcing this agreement cannot under any conceivable circumstances have the effect of undermining or being contrary to those objectives.

In addition, Quick Point's argument that enforcing the agreement may cause inventors to abandon patent applications is tenuous at best. First, it invites this Court to make a rule of law based on the assumption that inventors will act in bad faith. Second, it erroneously assumes any inventor is better off with a contract potentially lasting longer than 17 years with a licensee having competitors free to make the identical device, than he would be with a patent license limited to 17 years but with a licensee who has a monopoly on the manufacture of the device. Thus, Quick Point blithely assumes Aronson would have preferred in 1961 to have royalties from Quick Point so long as it made the device rather than a patent and royalties based on

* The headings on pages 26 and 27 of Quick Point's brief say that enforcing this agreement would conflict with "the objectives of the patent laws", and that enforcement would undermine the "preeminent patent law objective of encouraging the disclosure of new inventions". Although these references to the "objectives" of the patent law are contained in the headings, the argument which follows them is merely that enforcement of the agreement would create an incentive to patent applicants to abandon their applications. It never ever deals with the fact that enforcing agreements of this type *does* have the result of disclosing the invention to the public.

Quick Point's exclusive market position for 17 years. Aronson faithfully prosecuted her application, even taking an appeal to the Board of Appeals (App. 20). Given the fact that many inventions have a commercial life of much less than 17 years, it is unreasonable to assume inventors would prefer a potentially longer license agreement for royalties on sales of only one of a number of producers as opposed to a 17-year license for royalties from the producer who has a monopoly.

Even if there were any real danger an inventor would abandon an application on a patentable invention, the licensee can easily protect himself. First, he can require in the contract that the inventor diligently prosecute the patent application, thereby making the intentional abandonment of it for the purpose of taking unfair advantage of the licensee a breach of the contract. The license could also provide, as is quite common, that the licensee will prosecute the patent application. Finally, the licensee can insist upon a provision making the obligation to pay royalties cease if no patent issues. Thus, Quick Point's argument not only misses the point but is factually unsound.

B. Quick Point's Other Arguments That Enforcement of This Contract Conflicts with the Federal Patent Policy Are Equally Without Merit.

Quick Point urges that Aronson is in a better position than the holder of a patent and enforcing the contract thus conflicts with federal patent policy (Q. P. Br. 30-31). As noted above, this argument erroneously assumes Aronson would not be better off with 17 years of royalties from its licensee and the right to exclude all others from making the invention. But even if Quick Point's assumption were correct, it would not be controlling. The holders of the famous secret formula for Coca-Cola may be said to be in a better position than had the formula been patented but under *Kewanee* that is not the test for federal preemption. The test is not whether the inventor is better off but whether the

objectives of the federal policy encouraging innovation are frustrated and the public thereby harmed.

Quick Point relies on *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), and *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964). But, as previously pointed out, those cases are inapplicable. *Sears* involved a court order under state law excluding the entire public from an invention equally as much as a federal patent but without meeting the invention requirements or the temporal limitations of a federal patent (See Pet. Br. 15-17). *Brulotte* involved the conclusion that royalties on a patented invention after expiration of the patent constituted an unlawful attempt to extend the monopoly granted by the patent, and the Court expressly distinguished contracts on unpatented articles. (See Pet. Br. 18-20). Here there simply is no exclusion of the public which brings into operation any of the patent preemption policies enunciated by this Court.*

In reality, Quick Point is urging this Court to establish a rule forcing all patent applicants to take every possible step, leaving no stone unturned, in attempting to obtain a patent. In *Kewanee* the Court found that such a requirement is simply not federal policy since it may result in the issuance of invalid patents which do pose a threat to the public:**

> "The point is that those who might be encouraged to file for patents by the absence of trade secret law will include inventors possessing the chaff as well as the wheat. Some of the chaff—the nonpatentable discoveries—will be

* Quick Point also abuses the citation of *Painton, supra,* by implying that *Painton* set up a rule differentiating trade secret licenses from licenses involving patent applications (Q. P. Br. 29). Rather than establishing a classification differentiating patent applications from trade secrets, the court in *Painton* followed the prudent course of declining to decide a question not presented. See 442 F. 2d at 225.

** It would similarly not be consistent with federal policy to permit the collection of royalties only during the pendency of the application and not thereafter. Under those circumstances an inventor would be encouraged to keep the application on an unpatentable invention pending as long as possible. It would certainly not be in the interest of the patent system to encourage that practice.

thrown out by the Patent Office, but in the meantime society will have been deprived of use of those discoveries through trade secret-protected licensing. Some of the chaff may not be thrown out. This Court has noted the difference between the standards used by the Patent Office and the courts to determine patentability. . . . In [*Lear*], the Court thought that an invalid patent was so serious a threat to the free use of ideas already in the public domain that the Court permitted licensees of the patent holder to challenge the validity of the patent. Better had the invalid patent never been issued. More of those patents would likely issue if trade secret law were abolished." (416 U. S. at 488-89)

Under the decision below the inventor whose invention cannot be kept secret once it is marketed is faced with a very difficult choice. He may apply for a patent and license his invention immediately (as Aronson did), but he cannot provide for royalties over a period of time because once the invention is marketed it enters the "public domain" and the licensee cannot be forced to pay royalties. Or he can apply for a patent and not immediately license his invention. If no patent issues, his invention is still secret, but the only way he can reap profit from it is to manufacture it himself, or sell it for a lump sum. Faced with these alternatives a would-be inventor is likely to be discouraged rather than encouraged. Moreover, even if he ultimately manufactures the invention himself, its disclosure to the public is very likely to be delayed.

In *Kewanee* this Court indicated that it is not desirable to postpone unnecessarily the commerical use of trade secrets; that it is important to disseminate rather than hoard knowledge; and that one benefit of licensing inventions is the opportunity to use the most efficient manufacturing and marketing structures within an industry. Indeed, the following statement from *Kewanee* is particularly applicable here:

> "Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret. The result would be to hoard rather than disseminate knowledge. [*Painton*]. Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance." (416 U. S. at 486-87)

The better rule, which Aronson urges this Court to adopt, is that states may enforce contracts providing for continuing royalties in return for the disclosure of inventions, even when a patent application has been filed, where patentability is not a condition of the contract. Ruling for Quick Point in this case would not only usurp the bargain the parties freely entered into, but would also frustrate the policies Congress sought to foster in the federal patent law.

C. Enforcement of the Contract Does Not Frustrate National Competition Policy.

Quick Point argues that enforcement of this agreement will frustrate national competition policy. In so arguing, its brief parrots, like a broken record, the notion that ideas in the public domain are free, citing *Sears, et al.* (Q. P. Br. 36-43, 46). While that statement certainly is the law where one is trying to prohibit the copying of an idea in the public domain, Aronson is not attempting to prohibit the public from copying her idea. As stated before, that phrase does not mean that valid contracts disclosing an idea cannot be enforced (Pet. Br. 25-32). Quick

Point fails to mention or discuss, much less distinguish, the numerous cases so holding (Pet. Br. 28-32).

In the section dealing with national competition policy, Quick Point asserts there is no difference between Aronson and Adkins, the inventor in *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969) (Q. P. Br. 38, n.26). In *Lear*, Adkins *did* obtain a patent. This Court found an invalid patent such a threat to the public that not only would it allow the licensee to challenge the patent, but it would also offer the licensee the opportunity to stop paying royalties as an incentive to encourage such challenges. Here, Quick Point did not condition the license on the issuance of a patent and no patent was ever granted. There never has been any threat to the public which would mobilize the policy found in *Lear* because there is no patent to be declared invalid and therefore the parties should be left to their bargain.

This fact also disposes of Quick Point's reliance upon the statement in *Lear* that if the licensee is not permitted to challenge the validity of the licensed patent "the public may continually be required to pay tribute to would-be monopolists without need or justification". 395 U. S. at 670. Quick Point asserts that Aronson seeks such "tribute" here (Q. P. Br. at 43). What Quick Point fails to point out is that the "tribute" in *Lear* was obtained by a *monopolist* from the public—via a patent which might be invalid. The public is not being forced to pay Jane Aronson any tribute because she has no monopoly. There is no patent here.

Quick Point argues that enforcing royalty payments while a patent application is pending may be justified on the grounds that the licensor, by disclosing his invention to a licensee, will have provided an important head start advantage for which the licensee should pay (Q. P. Br. 43). But it argues that to require royalty payments after the application has been abandoned would funnel "excessive" rewards to the licensor at the expense of the licensee (Q. P. Br. 45). First, this argument is contrary to the rationale of the decision below and the basic argument

made by Quick Point itself. If, as the court below held and Quick Point here argues, it is contrary to federal policy to charge a royalty on an invention that is not patented and no longer secret, then a contract to pay royalties while an application is pending and where the subject matter is no longer secret cannot be enforceable. At that point there is no patent and there is no secret; anyone is free to copy the invention.

In addition, Quick Point's argument makes no sense either economically or in terms of the federal policy encouraging invention. Why, for example, is it reasonable to permit the collection of a royalty only during the term the patent application is pending instead of during a longer period agreed upon by the parties? The length of time an application is pending can vary considerably and has no relationship whatsoever to the value of the disclosure of the invention to the licensee. Indeed, the speed with which the application and amendments can be reviewed may depend upon the backlog at the Patent Office at any given time, or even that of a particular examiner. What federal policy is benefited by creating a rule of law that would encourage applicants to stall and keep applications pending after it is clear they should be abandoned?

Moreover, there is no basis for Quick Point's assertion that there would be "excessive" rewards to the licensor if the royalties went on after the patent application is abandoned. Who is to decide what is excessive? Is it not better to leave the matter to the parties' agreement? In this particular case, the parties agreed that the reduced royalty would be paid as long as Quick Point made the device. But in other agreements the parties might agree to other terms. For example, they might agree to royalties for 5 years, or 10 years if no patent issued, or royalties upon the first million or some other number of items manufactured using the idea, or royalties of a certain maximum dollar amount. All of these are possible agreements which the parties most familiar with the economic circumstances could reasonably enter into, and there is no basis in economics or law for the courts to

interfere with that free bargaining process and impose an arbitrary federal rule that the royalties cease once the patent application is abandoned, no matter how long or short it has been pending.

In this section (pp. 43, 46), Quick Point returns to its argument that what was bargained for here was really two separate things—disclosure of the secret and rights under any patent which might issue—and that when the application was abandoned the second half of the bargain failed. Therefore, Quick Point argues, royalties should have stopped when the application was abandoned. As in the other sections of its brief where it makes this argument, Quick Point totally ignores the fact that the royalty rate was also cut in half. The part of the agreement providing a 5% royalty did not require payments at that rate for "as long as you continue to sell" the device. That clause was made applicable only to the reduced royalty.

Quick Point asserts that the "excessive" royalties paid by Quick Point make it increasingly difficult for it to compete in the keyholder market. The fact, of course, is that Quick Point's sales have been steadily increasing (App. 19, 57), and while the payment of the royalties means that Quick Point is sharing its profit with Aronson, as it might with a partner or joint venturer, there is no evidence that its prices are higher than those of a competitor. Moreover, how are we to know that the value of the disclosure to Quick Point does not offset the cost of paying the royalties? Obviously, since it will vary from case to case, this is a matter which should be left to the parties in their bargaining process and not decided by the federal courts.

Quick Point says that enforcing this contract may exert a "cloistering effect" on free markets (Q. P. Br. 42), but nowhere does it explain this cloistering effect. This Court has recognized many times that "[e]very agreement concerning trade . . . restrains." *Chicago Board of Trade* v. *United States,* 246 U. S. 231, 238 (1918). But the Court has never indicated that there is a *per se* rule against contracts.

To require a manufacturer to live up to his agreement to pay royalties does not conflict with the national policy of free competition any more than an agreement to pay a salesman a commission, or any other agreement making the costs of one manufacturer higher than the costs of another. In effect, Quick Point argues that any time an agreement burdens or increases the costs of any single competitor, that agreement is contrary to national competition policy. But that same argument could be made about a labor agreement in which one manufacturer ends up paying his workers a higher wage than another or a contract one manufacturer has with his manufacturer's representative calling for a higher commission than his competitors pay their representatives.

There are many situations in the area of intellectual property where there is neither a patent nor continued secrecy but where a contract calls for the payment of continuing fees or royalties by a manufacturer or a user of an idea. For example, we previously referred to agreements calling for royalties on the use of a format or concept for a television series, or a motion picture, or for the use of an advertising idea (Pet. Br. 33-34). Such agreements are commonplace in our economy. There is no patent involved, and the idea certainly is not secret after its first use. The enforcement of those contracts does not in any way conflict with national competition policy. The same is true here. Requiring Quick Point to live up to its agreement to pay royalties for the use of Aronson's unpatented idea, her keyholder, in no way conflicts with the national policy of free competition.

D. Contrary to Quick Point's Assertion the State Interest at Stake in This Case Is Both Legitimate and Important.

Quick Point argues that preemption of state law is appropriate here because the "countervailing state policies and equitable considerations are so weak" (Q. P. Br. 47). Quick Point attempts to differentiate this case from *Kewanee* which, it says,

involved a body of long-standing state law designed to further legitimate and important state objectives such as the promotion of commercial morality.

Once again Quick Point's argument is incorrect. This Court noted in *Kewanee* that trade secret law was imported into this country from England by means of the landmark case of *Peabody* v. *Norfolk*, 98 Mass. 452 (1868). Certainly the policy of enforcing contracts freely entered into existed prior to 1868. In fact, the enforcement of contracts is one of the foundations of English and American jurisprudence. Missouri, as well as all of the states, certainly believes that there is a strong public policy in favor of enforcing contracts. See, ***Willman*** **v.** ***Beheler***, 499 S. W. 2d 770, 777 (Mo. 1973) ("There is a counterbalancing public policy which recognizes the interest of the public in protecting the freedom of persons to contract and in enforcing contractual rights and obligations."). Even the framers of the United States Constitution thought that contractual obligations hold such a special place in American political philosophy that they provided that the states may not pass any law "impairing the Obligation of Contracts. . . ." U. S. Const. art. I, § 10, cl. 1. As previously pointed out this Court has frequently admonished against striking down private contracts on the grounds of antitrust or other public policy (Pet. Br. 34-35). Quick Point fails even to mention this point, much less respond to it.

The state interest involved here is long-standing, legitimate and important, and there is no reason to interfere with it.

CONCLUSION

In spite of all of the arguments made by Quick Point in its brief, one fact clearly remains. There is simply no reason on the basis of federal patent policy, or federal competition policy, for the federal courts to interfere with the normal operation of state contract law in this case. Aronson is not seeking to avoid federal law, or to make an exception to federal law, because no federal law is violated by this agreement. The sole question here is whether the enforcement of state contract law so conflicts with the purpose of the federal patent law that the Court should preempt the state law. The purpose of the federal patent law is to encourage invention and the disclosure of inventions to the public. Since enforcement of the contract here will not in any way conflict with that purpose but will further it, the federal courts have no reason to interfere with state law enforcing this contract. Both federal and state law can peacefully coexist and fulfill the constitutional mandate to "promote the Progress of Science and useful Arts." Only by allowing both systems to operate to encourage invention and the public disclosure of inventions can this Court insure the continued preeminence and vitality of American technological development.

Respectfully submitted,

C. LEE COOK, JR.
DAVID C. BOGAN
8500 Sears Tower
Chicago, Illinois 60606
Attorneys for Petitioner

Of Counsel:
ROBERT S. ROBIN
CHADWELL, KAYSER, RUGGLES,
McGEE & HASTINGS, Ltd.
8500 Sears Tower
Chicago, Illinois 60606
(312) 876-2100
ROBERT E. KNECHTEL
DOMINIK, KNECHTEL,
GODULA & DEMEUR
Twenty North Wacker Drive
Chicago, Illinois 60606
(312) 726-5342
J. THOMAS McCARTHY
University of San Francisco
School of Law
San Francisco, California 94117

No. 77-1413

In the Supreme Court of the United States

OCTOBER TERM, 1978

JANE ARONSON, PETITIONER

v.

QUICK POINT PENCIL COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

WADE H. MCCREE, JR.,
Solicitor General,

JOHN H. SHENEFIELD,
Assistant Attorney General,

FRANK H. EASTERBROOK,
Deputy Solicitor General,

STEPHEN M. SHAPIRO,
Assistant to the Solicitor General,

BARRY GROSSMAN,
ROGER B. ANDEWELT,
ANDREW L. PRINGLE,
Attorneys,
Department of Justice,
Washington, D.C. 20530.

INDEX

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INTEREST OF THE UNITED STATES

The United States administers and enforces both the federal patent laws and the federal antitrust laws. The patent and antitrust laws seeks to promote economic progress by encouraging the invention, disclosure and commercial development of new products in the competitive marketplace. Under those laws, inventors and their licensees may contract as they choose for the manufacture and sale of new products so long as their agreements do not offend statutory

policies. Because of its interest in the relationship between state trade secret or unfair competition laws and the federal statutes, the United States has participated as *amicus curiae* in the cases that established the major principles that are involved in the present case: *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225; *Brulotte* v. *Thys Co.*, 379 U.S. 29; *Lear, Inc.* v. *Adkins*, 395 U.S. 653; and *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470.

QUESTION PRESENTED

The parties entered into an agreement authorizing respondent to manufacture a keyholder described in a pending patent application. That agreement required respondent to pay either a specified royalty if a patent were granted, or a reduced royalty for an indefinite period of time if a patent were denied. The question presented is whether the federal patent laws or the national policy favoring competition preempts state trade secret law and prevents enforcement of this agreement.

STATEMENT

Petitioner created an original design for a keyholder and applied for a patent (see 35 U.S.C. 101) in October 1955 (Pet. App. A2). Seeking to exploit her discovery commercially, petitioner disclosed it "under conditions of confidence" to several potential licensees (Pet. App. A43, A23). She entered into a licensing agreement with respondent in June 1956

(Pet. App. A30-A32). Respondent obtained the right to manufacture and sell the keyholder disclosed in the patent application; it agreed in return to pay petitioner a royalty of five percent of gross revenues on sales of keyholders that used the design (Pet. App. A30). The license provided that, if no patent should issue within five years, the royalty obligation would be reduced to two and one-half percent, payable as long as respondent used the design (Pet. App. A32).

Respondent made the keyholders and paid the five percent royalty until June 1961, the fifth anniversary of the agreement. It paid the reduced royalty thereafter (Pet. App. A25).

Petitioner's application for a patent was denied on initial consideration in 1956 (Pet. App. A27). An amended application was denied in 1957, and the Board of Patent Appeals affirmed that denial in 1961 (*ibid.*). No patent has issued on petitioner's device.

For many years respondent was the sole manufacturer of keyholders using petitioner's design. It encountered competition in the late 1960s and early 1970s, when at least seven, and perhaps as many as eleven, other companies began manufacturing similar keyholders (Pet. App. A27-A28). These competitors have eroded respondent's share of the market for keyholders using petitioner's design, but respondent's sales have increased (*ibid.*; see also *id.* at A45-A46).

Respondent continued to make the payments called for in the license until September 1975; the total payments were $203,963.84 (Pet. App. A26, A27-

A28). It stopped making payments 14 years after the date that the patent would have issued if the Board of Patent Appeals had ruled in petitioner's favor.[1] It then brought this diversity action, seeking a declaratory judgment that the license agreement is invalid under state law and that, if valid under state law, it is invalid under federal patent and antitrust policies.

The district court entered summary judgment for petitioner (Pet. App. A20). The district court concluded that the license is valid under state law and that the license does not frustrate any federal policy (*id.* at A23).

A divided panel of the court of appeals reversed (Pet. App. A1-A18). Although the court questioned whether the license would be valid under state law as a trade secret license (*id.* at A4 n. 5), it did not resolve this question (*id.* at A9 n. 13). It concluded that federal laws prevent enforcement of the license even on the assumption that it is valid under state law.

The court recognized that federal law does not preempt state trade secret law, but it concluded that state law must give way "at least when a patent application is involved" (Pet. App. A5; emphasis deleted). Under the majority's view, the license involved in this case could have been enforced if petitioner had not applied for a patent; because she did, however,

[1] The life of a patent is 17 years. 35 U.S.C. 154.

the majority reasoned that federal policy requires that her design be available to the public without cost.

Judge Larson dissented. He first found that the license is a trade secret license valid under state law because the design was secret at the time of its disclosure (Pet. App. A9-A11). It made no difference, he argued, that petitioner sought a patent, because this Court recognized in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, that state trade secret law could apply even when the trade secret was patentable. Enforcing the royalty agreement here would not hamper use of petitioner's design, Judge Larson concluded, because any person may copy and use it without hindrance. Moreover, he reasoned, because no patent had issued, there was no need to allow the licensee to cease paying royalties in order to create an incentive for licensees to challenge invalid patents.

SUMMARY OF ARGUMENT

A. The federal patent and antitrust laws do not preclude the states from enforcing the contractual rights of an inventor unless state law frustrates the achievement of federal policy. The federal patent laws encourage invention, foster full disclosure of useful discoveries, and prevent the removal of commercial ideas from the public domain. Federal competition policy also seeks to foster innovation and to ensure that entrepreneurs may enter new markets with improved products. License provisions of the kind involved in this case promote federal patent and

competition policies by permitting inventors to exploit their inventions commercially even if such inventions turn out to be unpatentable. Because there is no conflict, state law is not preempted.

B. In most cases inventors cannot determine in advance whether their inventions are patentable. Trade secret law allows inventors to obtain compensation for their inventions to the extent that they are actually marketed by manufacturers; it thus protects inventors against the risk of unpatentability, and it provides an increased incentive for innovation. A supplemental incentive to invent does not conflict with, but rather promotes, federal competition and patent policies. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 493.

C. A trade secret license providing for royalty payments after denial of a patent application does not conflict with the federal policy encouraging disclosure of new inventions. The incentive to obtain a monopoly under the federal patent laws in exchange for the disclosure of inventions is not disturbed by the availability of trade secret licenses. Trade secret licenses accelerate commercial exploitation and public disclosure by overcoming the incentive to withhold the product embodying the secret pending the outcome of protracted proceedings before the Patent and Trademark Office. *Kewanee Oil Co., supra*, 416 U.S. at 486-491.

D. Enforcement of the trade secret license involved here would not remove commercial ideas from the public domain. A trade secret license does not create or confer the right to exclude competitors,

and so the enforcement of royalty obligations under such an agreement could not prevent competitors from using the trade secret after the licensee discloses it through manufacture. Unlike the situation in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, respondent's competitors may use the invention freely and without cost. The licensee must continue to pay royalties, but only because it chose to obtain a commercial advantage by using the trade secret in advance of its competitors.

Indeed, the court of appeals' holding that states may not apply their trade secret laws to discoveries once the inventor has applied for, but not received, a patent, conflicts with federal policy. The court's rule discourages inventors from seeking patents and disclosing their inventions by imposing a penalty on those who pursue the approved federal route. Inventors could avoid the trap set by the court of appeals only by declining to license their discoveries until after a patent had been issued or denied. "The result would be to hoard rather than disseminate knowledge" (*Kewanee Oil Co., supra*, 416 U.S. at 486).

E. The court of appeals' conclusion that its rule is necessary to implement federal patent laws is incorrect. Neither *Lear, Inc.* v. *Adkins*, 395 U.S. 653, nor *Brulotte* v. *Thys Co.*, 379 U.S. 29, supports the court's decision.

Lear held that a patent licensee may challenge the validity of a patent and, if successful, need not continue to pay royalties. But there was no patent in this case, and therefore there is no need to fashion a

rule that will encourage challenges to questionable patents. Without the issuance of a patent there is no monopoly and nothing for the licensee to challenge: petitioner never acquired a right to exclude competition, and anyone may copy and sell keyholders that use petitioner's design.

In *Brulotte* the Court was concerned that permitting royalties of indefinite duration would enable a patent holder to extend his patent monopoly. But an inventor protected only by trade secret law has no monopoly that can be extended; the value of a trade secret will be determined by competitive forces.

At all events, a rule of law that would induce inventors to demand lump-sum payments, or payments spread over a short period, in order to be assured of adequate compensation for their ideas would not promote competition. It would simply require inventors and their licensees to guess about what the idea would be worth. The guesses might be too low, in which case the incentive to invent would be reduced. The guesses might be too high, in which case the price of the new product would be too high compared to the price of substitutes and competitive forces would induce the parties to reduce the royalties or risk pricing the product out of the market. That would create a systematic bias against adequate compensation for inventors. And even if the guesses often were accurate, the risk of developing and manufacturing an invention would be increased; some developers would be unwilling to take the higher risk, and that would reduce the number of competitors in the business of selling new products.

ARGUMENT

THE ENFORCEMENT OF THE LICENSE AT ISSUE IN THIS CASE DOES NOT FRUSTRATE FEDERAL POLICIES

The agreement between petitioner and respondent is a contract. The enforceability of contracts ordinarily depends entirely on state law. The agreement in this case, for example, would have been a routine patent license if petitioner had obtained a patent. Because no patent issued, the agreement may be understood either as a trade secret license or as a promise by respondent to pay petitioner for services rendered in designing the keyholder. It makes little difference, for present purposes, whether the agreement is a standard trade secret license or a promise of deferred payment for personal services; in either event, the agreement must be presumed to be valid under state law.[2] The only question open here is

[2] Respondent's complaint asserted that the agreement is invalid under state law. The district court, in entering judgment for petitioner, necessarily found the agreement to be valid. The court of appeals, although questioning the agreement's validity as a trade secret license (Pet. App. A4 n. 5), did not set aside the district court's conclusion (see *id.* at A9 n. 13). The court's decision thus rests entirely on the proposition that federal law prevents enforcement of valid trade secret licenses. In any event, we agree with the position of Judge Larson (*id.* at A9-A11) that the agreement is a valid trade secret license. The design was secret at the time petitioner disclosed it to respondent, and respondent learned the design only by promising to keep it secret until it had agreed to pay for any use it might make of the design. The fact that others might be able to copy the design after use does not over-

whether federal law prevents enforcement of this otherwise-valid agreement. We submit that it does not.

A. A Product License Should Be Enforced Unless Enforcement Would Violate Federal Patent Or Antitrust Policies

The federal patent laws, 35 U.S.C. 101 *et seq.*, encourage invention, foster full disclosure of useful discoveries, and ensure that commercial innovations are available to the public. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480-481, 484. Federal competition policy, as established principally in the Sherman and Clayton Acts, 26 Stat. 209, 38 Stat. 730, as amended, 15 U.S.C. 1 *et seq.*, also seeks to encourage the development of, and competition in, new products. The patent and antitrust laws, taken together, recognize that a limited period of monopoly will both encourage discoveries and enable inventors to coordinate the employment of resources in research and development;[3] but the employment of the patent monopoly depends on true inventiveness, and in the

come the secrecy at the time of disclosure to respondent, any more than "reverse engineering" of any product extinguishes the validity of the initial license. See *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 474, 476. In this case the design had sufficient commercial value that respondent agreed to pay substantial royalties to have first access to it, and the design was not copied by other firms until more than a decade after its introduction into the market by respondent. (For purposes of convenience we refer to the license in this case as a trade secret license.)

[3] For a concise description of the benefits of the patent and trade secret systems, see Kitch, *The Nature and Function of the Patent System*, 20 J.L. & Econ. 265 (1977). See also Bowman, *Patent and Antitrust Law* (1973).

main "the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress." *Northern Pacific Ry.* v. *United States*, 356 U.S. 1, 4.

When state law touches on the area of these federal statutes, "it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229. This Court has confirmed, however, that state trade secret law—aimed at "[t]he maintenance of standards of commercial ethics and the encouragement of invention"—does not conflict with federal patent and competition policies. *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 481. As we demonstrate below, this Court's conclusions in *Kewanee Oil Co.* apply fully in the present case.

B. Enforcing The License Involved In This Case Would Not Frustrate The Policy Of The Patent Laws To Encourage Invention

Enforcing licenses of the kind involved in this case would not deter innovation or the commercial exploitation of new ideas. To the contrary, enforcement of such agreements would provide greater, not lesser, incentives to inventors and would facilitate commercial development. Inventors often lack the financial resources, manufacturing facilities, and marketing capacity fully to exploit their discoveries. By enforcing the promises of manufacturers to pay royalties,

state trade secret law encourages inventors to disclose their ideas to persons able to share the risks associated with commercial development; trade secret law thus helps new ideas and services enter the marketplace. See *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 493:

> Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it.

Although inventors generally would prefer the greater protection afforded by a patent, *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 487-488, they cannot always determine in advance whether a discovery is patentable. *Id.* at 487.[4] Trade secret

[4] See Goldstein, *Kewanee Oil Co.* v. *Bicron Corp.*, reprinted in *The Supreme Court and Patents and Monopolies* 279, 290 (Kurland ed. 1975): "During most of the period over which investment is committed to innovation the [inventor] has little idea whether the end product—if there is one—will qualify under the patent laws. * * * Consequently, to eliminate [trade secret protection] would not produce the salutary effect of stimulating investment only in patentable inventions. * * * Rather [it] might instead curtail overall investment in innovation, with resulting losses to both patentable and unpatentable subject matter."

law, which permits inventors to receive compensation even though a patent is ultimately denied,[5] protects them against the risk of unpatentability. It thus increases the incentives for entrepreneurial innovation. "Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict." *Id.* at 484. See also Bowman, *Patent and Antitrust Law* 38 (1973).

C. Enforcement Of Trade Secret Agreements Will Not Frustrate The Policy Favoring Disclosure Of Inventions

The patent laws require that patent applications provide a sufficiently full description of the invention and "the manner and process of making and using it" so that persons skilled in the art can make and use the invention. 35 U.S.C. 111-112. The patent laws exact disclosure in exchange for the patent monopoly.[6] *Universal Oil Co.* v. *Globe Co.*, 322 U.S. 471, 484. The free flow of both basic and applied scientific knowledge is essential to rapid progress and

[5] State trade secret law properly enforces royalty obligations relating to both patentable and unpatentable inventions. See *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 485, noting that "[t]rade secret law will encourage invention in areas where patent law does not reach."

[6] Disclosure is important because it enables other persons to build on the base established by the first inventor. Disclosure also facilitates the coordination of investment in research and development. See Kitch, *supra*, 20 J.L. & Econ. at 267-271, 276-278.

maximum use of scientific resources. *Graham* v. *John Deere Co.*, 383 U.S. 1, 9. If the enforceability of trade secret agreements served to divert inventions from the patent system, thereby diminishing public disclosure, there would be a strong argument for setting the state law aside.

Enforcement of alternative patent-trade secret licenses such as the agreement involved here would not, however, diminish disclosure by diverting inventions from the patent system. Such agreements generally encourage inventors to seek federal patent protection without compromising their ability to participate in the commercial value of their inventions if patent protection is denied. If the patent application should be granted, the patent system would provide for disclosure. The agreement here in question contemplated an application for a patent, and it provided for double royalties in the event that petitioner obtained a patent. The double royalty provision in the trade secret license gave petitioner every incentive to prosecute the patent application vigorously, and the denial of the application was not caused by the trade secret license. Moreover, federal law itself provides for the nondisclosure of applications that do not ripen into patents (35 U.S.C. 122), so that any nondisclosure in the present instance could not violate federal principles.

In our view, the decision of the court of appeals poses a much greater threat to full disclosure than does the application of state trade secret law. Under the principles of *Kewanee*, states may apply their

trade secret laws whether or not the discovery is patentable. The court of appeals put a gloss on *Kewanee* by holding that state trade secret law is preempted "at least when a patent application is involved" (Pet. App. A5; emphasis deleted). If the inventor seeks patent protection for a discovery that turns out to be unpatentable, he not only does not obtain a patent monopoly but also loses the protection of state trade secret law. But, as the Court recognized in *Kewanee*, in many if not most cases the inventor cannot know in advance whether a patent will be issued (416 U.S. at 487). The court of appeals' gloss on *Kewanee* means that in cases in which patentability is doubtful, the inventor has a reduced incentive to apply for a patent.

If inventors and discoverers should apply for patents less frequently, there would be fewer disclosures in connection with the patent system. Alternatively, the court of appeals' rule might induce applicants for patents not to license their inventions until the patent had been either issued or denied. "The result would be to hoard rather than disseminate knowledge" and to retard the employment of useful discoveries. *Kewanee Oil Co.*, *supra*, 416 U.S. at 486. The court of appeals' holding—which deprives petitioner of royalties *because* she applied for a patent—creates a disincentive to use the patent system and thus frustrates federal policy.

D. Trade Secret Royalty Agreements Do Not Remove Unpatentable Ideas From The Public Domain

Relying principally on *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, the court of appeals concluded that the trade secret agreement involved here is invalid because "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent" (Pet. App. A4). That general principle is unexceptionable, but it does not support the result reached by the court of appeals.

Sears and *Compco* held that state unfair competition laws may not prevent competitors from copying unpatented designs. The Court pointed out in *Sears* (376 U.S. at 229) that the right "to exclude others from the use of invention" is the essence of the patent monopoly. If federal law withholds that "right to exclude," a state may not confer the right. This principle, however, has nothing to do with the question whether express contractual royalty obligations should be enforced. Nothing in the payment of a royalty excludes any person from making a keyholder, and the license does not keep any idea out of the public domain.

The keyholder designed by petitioner was not in the public domain at the time the license agreement was concluded. Petitioner communicated her novel design "in confidence" (Pet. App. A43) to respondent and several other potential manufacturers. This confidential communication was entirely consistent with

federal policy, which does not require that all ideas be placed in general circulation. *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216, 225 (C.A. 2). The federal policy "that matter[s] once in the public domain must remain in the public domain is not incompatible with the existence of trade secret protection. By definition a trade secret has not been placed in the public domain." *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 484.

Products embodying trade secrets can be copied after their initial sale; if the secret is not evident on inspection of the product, "reverse engineering" may enable a competitor to learn the secret. Many of respondent's competitors copied and sold products using petitioner's design. No state law interfered with the copying and sale; that is why this case does not present the bar to competition that was present in *Sears* and *Compco*. Petitioner's design is now "in the public domain and can be copied in every detail by whoever pleases." *Compco Corp.*, *supra*, 376 U.S. at 238. The license requires respondent to continue to pay royalties, but that is the consequence of the bargain that it negotiated in order to market the product ahead of its competitors.

E. Enforcement Of Alternative Patent-Trade Secret Licenses Of The Type Involved In This Case Will Promote Competition

National competition policy seeks to promote a predominantly free market economy in which entrepreneurs enter into commercial agreements based on

their private judgments about how to advance their economic welfare. Only where those agreements unreasonably restrain trade or lessen competition does federal competition policy invalidate the private transaction. *Continental T. V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 49-50.

The parties in this case negotiated an agreement that permitted both of them to profit from their contributions to keyholder sales. The agreement appears to have been voluntary on both sides. If the keyholder succeeded commercially, both parties reaped profits; if it failed, the manufacturer had no royalty obligations and the designer received no reward for a worthless idea. Analysis of the competitive effects of such an agreement shows that it promotes rather than retards competition.

1. State law allows inventors to secure compensation for their discoveries through trade secret licenses, thereby providing additional incentives for commercial innovation. Petitioner's agreement with respondent induced her to disclose her design to a capable manufacturer, which produced keyholders based on the design and marketed them to the public. As this new market emerged, seven or more other companies copied the design and became respondent's rivals. As a result, a competitive market exists today based on the design and disclosure fostered by the trade secret agreement. Here, as in *Kewanee Oil Co.*, *supra*, 416 U.S. at 485, state law assures that "[c]ompetition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention." Invalidation of the agreement would inhibit disclosure by other inventors, who would be reluctant to impart their knowledge to manufacturers who might repudiate their obligations.

2. The court of appeals believed that *Lear, Inc.* v. *Adkins*, 395 U.S. 653, and *Brulotte* v. *Thys Co.*, 379 U.S. 29, require the preemption of state trade secret law to the extent that law would apply to discoveries for which a patent has been sought and denied. *Brulotte* held that patent licensees may not be required to pay royalties after the patent has expired; *Lear* held that patent licensees may challenge the validity of any patent that issues and, if successful in that challenge, may cease paying the royalties required by contract. The court of appeals pointed out that, if petitioner's patent application had been granted, she would not have been able to collect royalties after its expiration or after a declaration of its invalidity, and it concluded that petitioner should not be better off simply because her patent application was denied.

It is hard to understand how enforcement of the license between petitioner and respondent would make petitioner "better off" because her patent application was denied. The denial of the application cut in half the royalty payments respondent was obligated to make. Moreover, petitioner lost any ability to exclude respondent's competitors from using her design; the competitors were free to, and did, copy the design without paying royalties. The denial of patent pro-

tection thus cost petitioner substantial sums that she otherwise would have received.

The more telling point, however, is that the principles underlying *Lear* and *Brulotte* do not apply when no patent has issued. *Kewanee* establishes this as a general matter, for many of the reasons we already have discussed.

In *Lear* the Court was concerned that forbidding patent licensees to challenge the validity of a patent[7] would remove from the class of potential challengers the persons with the greatest incentive to test the patent's validity and the greatest knowledge about the circumstances showing invalidity. The Court stated that it is important to subject patents to judicial scrutiny because they have been issued after *ex parte* proceedings, and judicial review may cast their validity in a different light. Moreover, because patents create a right to exclude competition—a lawful monopoly—there is an important public interest in ensuring that this monopoly is conferred only when the statutory criteria have been satisfied.

Trade secret licenses, however, do not stultify challenges to the validity of patents. By definition there is no patent to be challenged. There is no grant of a lawful monopoly and no need to ascertain whether the proper statutory criteria have been applied. Because petitioner never acquired a right to exclude competi-

[7] Or, what is the same thing, allowing a challenge but requiring the licensees to pay the agreed royalties even if the challenge is successful.

tion in the use of her design, no federal purpose would be served by excusing respondent from its contractual obligation to pay royalties.[8]

In *Brulotte* the Court was concerned that permitting royalties of indefinite duration would enable a licensor to extend his patent monopoly beyond the statutory period. It should be plain, however, that an inventor protected only by trade secret law has no monopoly that can be "extended." Petitioner never had a legal monopoly of any sort; she had only the worth of her design in a competitive market, and there is no reason why she and a willing licensee cannot agree to spread the payments for that design over its full useful life.[9]

As we have discussed above (pages 12-13, *supra*), the value of a discovery often cannot be determined

[8] We believe, however, that the rationale of *Lear* would invalidate any license that called for the payment of reduced royalties if a patent were issued and then held invalid. First, an idea becomes public knowledge when a patent issues, and this public idea could not thereafter be the subject of trade secret protection. Second, a licensee needs the maximum possible incentive to challenge arguably invalid patents. Allowing the licensor to collect some reduced royalty (perhaps a substantial portion of the full royalty) after a declaration of patent invalidity would undermine this incentive. There would be no principled ground on which a court could uphold a contract calling for 25 percent of the original royalty after a declaration of patent invalidity while forbidding a contract calling for the payment of 99 percent of the original royalty, and it is therefore appropriate to conclude that no royalty may be collected after a patent has been declared invalid.

[9] The agreement was similar to the trade secret license upheld in *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655, 663 (S.D. N.Y.), affirmed,

prior to its commercial exploitation. If federal law were to induce inventors to collect all of their royalties during the first few years of the discovery's employment—before final action on a patent application or perhaps, as the court of appeals hinted, even before the first public disclosure of a trade secret (Pet. App. A4 n. 5)—the parties would be forced to speculate about the worth of the idea in order to determine the appropriate payment. Setting a lump-sum payment, or compensation to be measured and paid over a short span, is difficult to do.[10] If the estimate of market value should turn out to be too low, the licensee would get off cheaply and the inventor would not receive the full value of his contribution; that would reduce the incentive to invest in research, invention and design. If the esti-

280 F.2d 197 (C.A. 2). There, the manufacturing licensee sought to relieve itself of its obligation to pay royalties on sales of Listerine mouthwash. The ingredients of the mouthwash had been known in the trade for some 25 years before the licensee sued; nevertheless, the court held:

> There is nothing unreasonable or irrational about imposing [a perpetual royalty] obligation. It is entirely rational and sensible that the obligation to make payments should be based upon the business which flows from the formula conveyed. Whether or not the obligation continues is in the control of the plaintiff itself. For the plaintiff has the right to terminate its obligation to pay whenever in good faith it desires to cease the manufacture or sale of Listerine.

[10] *Ex ante* estimates of commercial value must take into account the likelihood of a patent issuing, the public demand for the product, the prospect of utilizing the invention in new applications, the costs of commercial exploitation, and the

mate of market worth should turn out to be too high, the licensee would have costs that are too high for the market. That might produce a windfall for the inventor if there had been a lump-sum payment; but more likely, if the royalty initially were set too high, and if that made the selling price too high to compete effectively with substitutes, thus preventing effective exploitation of the discovery, then the parties would agree to reduce the payments. In other words, the royalty would not exceed the amount set by competition in the marketplace. But no similar market discipline would lead to an increase in royalties that initially were set too low. There is therefore a systematic bias against inventors under a rule of law effectively requiring payments in a lump sum or over a short period. That bias would reduce the incentive to invent.

Even if, over the long run, payments to inventors as a group approximate market value, with some predictions too high and some too low, the problem of disparity between the projections and reality increases the risk to licensees in exploiting inventions.[11]

probability of competitive entry. Inventors and licensees naturally would hesitate to make a final determination of the commercial value of an invention and the amount of consideration to be paid on the basis of these projections. See Posner, *Economic Analysis of Law* § 4.1 (2d ed. 1977): "The danger that the exchange may not really be value-maximizing is much greater when * * * the costs and benefits involved in the exchange may not become known to one party until he has already completed his agreed-upon performance."

[11] An increase in the risk borne by the licensee also would require the licensee to seek a higher rate of return on the

An increase in risk may make smaller firms unwilling to accept licenses, because they cannot spread the risk over many discoveries and products. To the extent that the court of appeals' decision would reduce the number of firms willing to bid for trade secrets, it would tend both to decrease the reward for inventions and to make it more difficult for smaller firms to develop new products, tendencies that would run counter to federal patent and competition policies.

3. Requiring licensees who have agreed to pay royalties for indeterminate periods to comply with their agreements should not impose significant disadvantages on them relative to their competitors. Trade secret licensees bargain for a head start, and they obtain the advantage over their competitors of early development of customer relationships, brand identification, and an initial period of sales without competition. Whether such licensees are wise to promise long-term payments is not a matter of governmental concern. The law does not preclude licensees from paying a flat fee at the beginning of the license period, and there is no reason to prohibit the alternative of distributing payments over the use-

funds it has invested in development of inventions. Because the licensee will face competition from producers of substitutes for the discovery or design, it cannot charge a price higher than the price it would have charged if the risk had been smaller. The licensee thus can receive compensation for its increased risk only by reducing the average amount paid to inventors for ideas. A reduction in the average payment for ideas, over the long run, would diminish the supply of new ideas.

ful life of the invention if the parties find that preferable.

The market most likely will dictate the form of royalty agreements. It would be contrary to the self-interest of inventors and designers for them to demand royalties that do not approximate the value of their inventions. Royalties that are too high, or would continue for too long, would place licensees at an untenable disadvantage relative to rivals who exploit the idea free of charge. After all, the compensation of licensors depends on the volume of sales by licensees, and that volume cannot be sustained if licenses subject sellers to excessive costs, which would make sales unprofitable. Licensors seeking to maximize their income may well reduce their royalty demands, thereby allowing licensees to make a profit at the market price (or to reduce their price and meet competition). Licenses always can be revised to reflect changes in market conditions, and the parties to a trade secret license have every incentive to cooperate to increase their joint welfare. The rational licensor would not act contrary to its own economic interests by insisting on payment for an idea that had lost its commercial value, and if the licensor acted irrationally the licensee could protect itself by ceasing to use the trade secret.[12]

[12] The fact that respondent has increased its sales of the keyholder, even while paying royalties that its competitors do not pay, suggests that petitioner's design has a continuing value. Perhaps respondent's competitors have not copied the design exactly, so that the information petitioner disclosed

Conversely, there appears to be no serious risk that imparting trade secrets to a single manufacturer for an indefinite period under a licensing agreement will confer undue competitive advantages. The 17-year period of protection afforded under the federal patent laws is a monopoly grant designed to stimulate invention. State enforcement of trade secret contracts, on the other hand, does not usually confer substantial or enduring market power. The degree of market power conferred by a trade secret is immediately limited by the ability of competitors to produce substitute or identical products by independent discovery or reverse engineering. Market power conferred by a trade secret is subject to rapid dissipation if another party discovers the trade secret. As this Court noted in *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*, 416 U.S. at 490, "[i]f something is to be discovered at all very likely it will be discovered by more than one

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to respondent still gives respondent a competitive advantage. Or perhaps respondent's competitors have been required to hire designers and draftsmen to duplicate the design. Duplicating the design would have imposed costs on respondent's competitors, and the competitors must recover those costs of doing business. The royalties respondent pays to petitioner may be approximately equal to the costs the competitors encountered in duplicating the design.

Our point here is that the cost of acquiring information is a cost of doing business. Respondent bought information from petitioner, while respondent's competitors acquired their information in some other way. There is no reason rooted in federal law why respondent, but not its competitors, should be relieved of the cost of information acquisition. See *Kewanee Oil Co.*, *supra*, 416 U.S. at 482.

person." Unlike the situation where a patent has been conferred, moreover, third parties are free to copy the invented product, and competition to copy the product will be intense if it has commercial value. In many cases the mere manufacture and sale of a product results in disclosure of the trade secret, and market power declines rapidly. That appears to be the case here. Thus, as a general rule,[13] the Court need not be concerned that enforcing royalty obligations for indeterminate periods will undermine federal antitrust policies.[14]

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[13] We do not suggest that long-term trade secret licenses never raise competitive problems. If entry barriers exist and the trade secret has not been discovered after a significant period of time, or if the trade secret license appears otherwise to have impaired effective competition, such licenses may become unreasonable restraints of trade. The option of enforcing the antitrust laws against such restraints may be preserved, however, without establishing a *per se* rule that deprives parties of the right to enter into alternative patent-trade secret licenses that in most cases do not violate public policy. See *Continental T. V., Inc.* v. *GTE Sylvania Inc.*, *supra*, 433 U.S. at 49-50.

[14] Pleas by contracting parties to escape the obligation of their agreements on the theory that such agreements offend competitive policies have "not met with much favor in this Court." *Kelly* v. *Kosuga*, 358 U.S. 516, 518. As the Court pointed out in *Kelly:* "Obviously, state law governs in general the rights and duties of sellers and purchasers of goods, and, while the effect of illegality under a federal statute is a matter of federal law * * * even in diversity actions in federal courts * * * the federal courts should not be quick to create a policy of nonenforcement of contracts beyond that which is clearly the requirement of the Sherman Act" (*id.* at 519).

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

WADE H. MCCREE, JR.,
Soliictor General.

JOHN H. SHENEFIELD,
Assistant Attorney General.

FRANK H. EASTERBROOK,
Deputy Solicitor General.

STEPHEN M. SHAPIRO,
Assistant to the Solicitor General.

BARRY GROSSMAN,
ROGER B. ANDEWELT,
ANDREW L. PRINGLE,
Attorneys.

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IN THE

Supreme Court of the United States

OCTOBER TERM 1977

No. 77-1413

JANE ARONSON,

Petitioner,

v.

QUICK POINT PENCIL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

BRIEF ON BEHALF OF THE AMERICAN PATENT LAW ASSOCIATION AS AMICUS CURIAE

TOM ARNOLD
ARNOLD, WHITE & DURKEE
2100 Transco Tower
Houston, Texas 77056

Attorneys for Amicus Curiae The American Patent Law Association

FIDELITY PRINTING COMPANY, HOUSTON

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

PAGE

STATUTORY PROVISIONS RELIED UPON

A person shall be entitled to a patent unless —

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof, the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other. (Amended July 28, 1972, Public Law 92-358, sec. 2, 86 Stat. 501).

PAGE

Applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the applicant or owner unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner. (Amended January 2, 1975, Public Law 93-596, sec. 1, 88 Stat. 1949.)

If it appears that applicant is entitled to a patent under the law, a written notice of allowance of the application shall be given or mailed to the applicant. The notice shall specify a sum, constituting the issue fee or a portion thereof, which shall be paid within three months thereafter.

Upon payment of this sum the patent shall issue, but if payment is not timely made, the application shall be regarded as abandoned.

Any remaining balance of the issue fee shall be paid within three months from the sending of a notice thereof and, if not paid, the patent shall lapse at the termination of this three-month period. In calculating the amount of a remaining balance, charges for a page or less may be disregarded.

If any payment required by this section is not timely made, but is submitted with the fee for delayed payment and the delay in payment is shown to have been unavoidable, it may be accepted by the Commissioner as though no abandonment or lapse had ever occurred. (Amended July 24, 1965, Public Law 89-83, secs. 4 and 6, 79 Stat. 260; and January 2, 1975, Public Law 93-601, sec. 3, 88 Stat. 1956.)

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. (Amended July 24, 1965, Public Law 89-83, sec. 5, 79 Stat. 261.)

Subject to the provisions of this title, patents shall have the attributes of personal property.

CONSTITUTIONAL PROVISIONS RELIED UPON

MISCELLANEOUS

CONSENT OF THE PARTIES

A letter from the party Aronson indicating consent to the filing of this brief is being filed with the Clerk.

A request for leave to file this brief was presented to but denied by the party Quick Point.

So a motion for leave is presented herewith.

IN THE

Supreme Court of the United States

OCTOBER TERM 1977

No. 1413

JANE ARONSON,

Petitioner,

v.

QUICK POINT PENCIL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

ON BEHALF OF THE AMERICAN PATENT LAW ASSOCIATION AS AMICUS CURIAE

I.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

The American Patent Law Association ("APLA") moves for leave to file the accompanying brief Amicus Curiae.

In support thereof, the Association states the following:

A letter from the party Aronson, consenting to APLA's brief, is on file with the clerk. The Party Quick Point has declined so to consent.

The facts which give rise to the issue before the Court relate to a key holder which is immediately and completely disclosed upon its first marketing, a technology area where there exists many individual private interests but no important national economic interest.

The question on which certiorari was granted is in terms generic to, and is inherently inseparable from, multi-billion dollar national interests. (Know-how license royalties are now running at the billion-a-year rate on know-how of capital value of many billions of dollars).

As to the multi-billion dollar national interests, and the policies relating thereto, there is no evidence in the trial record. Further, parties to the case do not appear to have the industrial-know-how-license background to even know that the multi-billion dollar national interest exists within the scope of the question on which certiorari was granted.

Current business practices involving multi-billion dollar values of national interest, indeed involving even the national balance of payments deficit, is inseparable, for patent law preemption purposes, from the Quick Point license problem that involves no great national interest. The American Patent Law Association wishes to provide to the Court some appreciation of patent law preemption inevitable application to those national values, if it is applied to the Quick Point license.

For without empirical data as to the effects of what the Court is asked to rule, the Court cannot rule intelligently.

Wherefore, leave to file the attached brief is requested.

Respectfully submitted,

....

Tom Arnold

Arnold, White & Durkee
2100 Transco Tower
Houston, Texas 77056

Attorneys for Amicus Curiae
The American Patent Law
Association

II.

THE NATURE OF THE AMICUS

This brief amicus curiae is submitted by the American Patent Law Association (APLA)[1] under Rule 42(2) of this Court.

APLA is a nationwide association of over 4000 members including judges, law teachers and lawyers from private, corporate and government practice. The professional activity of its members is predominantly the intellectual property area including patents, trade secrets, know-how, trademarks and copyrights. Probably substantially over half of the lawyers who practice to any significant degree in the area of technology development and licensing, are members of APLA.

Unlike some specialties of law practice where plaintiffs and defendants are often represented by predominantly separate legal fraternities, in the law of technology development and licensing, and related litigation, the same individual attorneys almost uniformly appear as often on the licensor side as the licensee side, on the plaintiff's side as the defendant's side.

Thus they inherently study the competitive and economic realities of technology transactions from all sides. By such experience and membership composition, this association is well balanced in the realities of technology-transfer law and its economics.

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[1] APLA's membership-at-large elects those who form APLA's 19 member Board of Managers. The outline and general subject matter of this brief was determined by the entire Board in the course of authorizing the filing of it on behalf of APLA. The actual brief in its final form has been approved by the Executive Committee of the APLA Board of Managers.

III.

THE INTEREST OF THE AMICUS

There is essentially no social, economic or policy evidence of record in this case upon which to base the legislative-type policy decision on the question on which certiorari was granted.

The parties to this case are not representative of the vast industrial investments in unpatented know-how, literally billions of dollars, which are to be vitally affected by the manner in which the Court answers the question presented.

The Amicus has no interest in the outcome of the particular case before the Court.

But members of the Amicus represent industrial and societal interests involving literally billions of dollars in technical know-how investments and values and national technology competitive posture with the rest of the world, all of which seem inevitably and unavoidably at risk in this case.

If those very important national and technology interests which are not represented by the parties Aronson and Quick Point were not deemed to be at risk by the question on certiorari, APLA would not be here as Amicus.

This Court in its very recent *Parker* v. *Flook*, ... U.S. ......, 98 S.Ct. 2522 (1978) acknowledged that it does not have access to the empirical data necessary for public policy making in the area of protection of certain intellectual property — there, computer software — and that acknowledgement is surely as applicable to the issue of the present case.

It is Amicus' purpose to provide as best it can some bit of the empirical data and a view of Justice Frankfurter's

"realities of the law in action"[2] so that the Court may be aware of how society must inevitably be affected by the various possible answers to the issue before the court.

IV.

THE ISSUE IS VITALLY IMPORTANT TO THE ENTIRE NATION

> "We must be especially wary against the dangers of premature synthesis, of sterile generalization unnourished by the realities of law in action." The Task of Administrative Law, 75 U.Pa. L.R. 614 (1927).

The issue on which certiorari has been granted seems to have many important clauses:

patent law preemption/

of freedom of people to contract/

for payment [piece-of-the-action] in exchange for transfer of technology/

technology which is not patented and perchance not patentable/

which is accessible by engineering of and from information available from public sources.[3]

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[2] Frankfurter, *The Task of Administrative Law*, 75 U.Pa. L.R. 614 (1927).

[3] The Aronson key holder is subject to very quick "reverse engineering"; a glance by any shop hand familiar with the type of product and he can make it. The mechanical pencil would take a little longer, but still be quick. The familiar Mixmaster in every kitchen — longer by another month. An electric typewriter — longer by a year perhaps. A J-59 jet engine — longer by many years.

A fluidized catalytic oil refinery or polyurethane plant is a little different because the process is not on the market for reverse engineering. But even there, the basic concepts very commonly soon become knowable from incidental disclosures in patents which may or may not cover them, from technical journals or institutes, or the like, and from an often surprisingly

The Res is a billion dollar private capital investment in technology.

The importance of that question turns first upon the economic significance of the *res* involved, the technology which is not patented and often not patentable, and which is accessible by engineering of information available from public sources.

That *res* is a *multibillion* dollar *res*.

It is vital that this be understood. *There exists today, know-how license contracts on which roughly a billion dollars are being paid every year by foreign buyers to U. S. sellers of technology, for technology which is not patented in the subject country of use and which is not secret in the sense that it is accessible by engineering the publicly available information.*[4]

As explained in Appendix A hereto, the figures are uncertain and soft, and there is a definitional overlap and intermix between "trade secret" and "know-how" and acute confusion as to the true meaning of "secret". But the Billion dollar order of magnitude for unpatented and publicly accessible technology is a highly responsible estimate.

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lar e amount of process analysis that can come from the end product that is on the market.

Thus, even as to the petrochemical processing industry, it is almost routine for enough information to be available from public sources such that an engineering job can in a few years time produce even a chemical plant. Of course some secrets are key and hard to crack, and some keys are protected by patents, so routine engineering will not always provide the desired usable knowledge, but quite often it will. Very often.

The point here: The issue as presented is not limited to gadgets, but potentially affects all the world of unpatented, unsecret technology — of which more in the text.

[4] See Appendix A.

One of the reasons precise figures are not obtainable is the ephemeral character of know-how. Commonly, often, marketed know-how is an assembled package of reconciled parameter details, warrantable to be essentially bug-free and capable of producing X quantity of Y quality polyethylene or carbon black or jet engines at Z cost commencing by a specified early date. It is known at contract time that much of the package both is not patented and is available by engineering of publicly available information and in that sense is not secret.

Further all the confidentiality and patent protection that does reside in the package at contract time is expected to dissipate in eratic and unpredictable patterns which are almost totally unrelated to the value the licensee gets when he needs his assembled package of pre-recorded know-how parameters.

This truth, that in high technology know-how licensing the pattern of dissipation of secrecy of licensed know-how packages is commonly almost totally independent of the value realized by the buyer, is perhaps one of the most important truths for any policy-maker in this area to perceive well and understand the many meanings-of.

And, it is *private* capital investment that produces essentially all of this actually-licensed know-how technology. The government puts much R & D money into concepts and into military and space hardware. But rarely, if ever, does the government translate such technology into finished packages licensable as unpatented know-how.

So this billion-odd dollars annually is direct support for private research and development.

While there are not hard figures on the point, it is responsible to estimate that for purposes of international trade in technology and manufactured goods, United States know-

how is worth much more than its portfolio of foreign patents. So, in that sense, that very important sense, unpatented know-how is our most valuable national asset.

There exists now a national crisis in the shortage of research and development.

The Court can take judicial knowledge of the growing loss of U.S. position in world technology competition.

The New York Times News Service, on June 4, 1978, released an article entitled and commencing as follows:

> ALARM SOUNDED OVER DECLINING SUPPORT OF AMERICAN EXPLORATORY RESEARCH
>
> Washington. An increasing number of experts in both government and the private sector, fear that American industry -- the standard-setter in commercial innovation for more than a century — is losing its creative edge because of declining investment in research. * * *
>
> This ominous conclusion is shared by Presidential aides [Stuart E. Eizenstat and Frank Press], congressmen and economists who have studied national research and development trends.

• • •

Newsweek of July 3, 1978, has a major article:

> A GROWING R & D GAP
>
> American enterprise thrives on invention — the pursuit of an abstract formula in a lonely college lab [commonly pursuant to corporate financing in pursuit of a profit], the fashioning of advanced computer hardware in a massive industrial complex.
>
> Yet, there are growing signs that this creative pulse is slowing down.

> Between 1971 and 1976 patents granted to Americans fell by 21 percent. In the same period the number of Japanese scientists and engineers performing nondefense research and development climbed close to the U.S. total — even though Japan's population is less than half that of the United States. The figures make it abundantly clear that our nation's position of R & D leadership is slipping.

• • •

The Commissioner of Patents in a speech in New York August 5, 1978, quoted Assistant Secretary of Commerce Frank Weil's statement in the New York Times,

> The United States is now running an annual rate deficit of $10.5 billion on manufactured goods in contrast to a $3 billion surplus last year and a $12 billion surplus in 1976.

The Commissioner also quoted Senator Stevenson:

> Technological innovation was responsible for 45 percent of the nation's economic growth from 1929 to 1969. It remains the key to our ability to compete in the world.
>
> The $30 billion trade deficit is not so much the result of the oil bill as it is our inability to pay for it with exports. Other nations do so. * * *
>
> The key to recovery and stable prices is industrial innovation, including innovation in the production of food.
>
> But the nation is losing its edge. More R & D takes place outside than inside the United States.

• • •

The cover story of the July 3, 1978 *Business Week* was entitled "Vanishing Innovation". The subtitle reads:

> "A hostile climate for new ideas and products is threatening the technological superiority of the U.S."

The hostile climate referred to is the government [including the judiciary] which is alleged in the article to be "beating hell out of the goose that lays the golden eggs."

It is noteworthy that the economic health of the R & D community and the competitive posture of this nation's R & D effort in the rest of the world has never been the subject of any evidence before the courts when they, from time to time in the last 15 years, have denied protection of the results of U.S. investment in technology, thereby discouraging investment in R & D.

Without empirical data on such vital matters, i.e., without Mr. Justice Frankfurter's "realities of law in action" before it, the courts have often failed to support a climate for protection of research and development results.[5] A climate in which profits may be earned on those investments; by which new capital can be induced into R & D.

So, the courts appear to be a not inconsequential part of the problem, bit by bit unwittingly destroying industrialists' confidence that unavoidably-high-risk R & D is a profitable place for investment when safer Certificate of Deposit and bond investments will return on the order of seven/eight percent.

[5] *Parker* v. *Flook*, ... U.S. .... (June 22, 1978); *Sakraida* v. *Ag. Pro, Inc.*, 425 U.S. 273 (1976); *Dann* v. *Johnston*, 425 U.S. 219 (1976); *Gottschalk* v. *Benson*, 409 U.S. 63 (1972); *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972); *Blonder-Tongue Laboratories Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971); *Anderson's Black Rock Inc.* v. *Pavement Salvage Co.*, 396 U.S. 57 (1969); *Lear Inc.* v. *Adkins*, 395 U.S. 653 (1969); *Zenith Radio Corp.* v. *Hazeltine Research Inc.*, 395 U.S. 100 (1969); *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966); *Calmar Inc.* v. *Cook Chemical Co. and Colgate-Palmolive Co.* v. *Cook Chemical Co.*, 383 U.S. 1 (1966); *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964); *Aro Mfg. Co. Inc.* v. *Convertible Top Replacement Co. Inc.*, 365 U.S. 336 (1961).

The concern over national technology policy, has reached such levels that President Carter is now, August 1978, appointing a special high level national commission[6] to study that national innovation and technology policy.

When the court is being asked to write a national policy the Congress clearly did not express, the Court must consider the relevant policy issues — here being the economics of technology creation and marketing.

This Amicus Brief is focused primarily upon that subject matter.

V.

THE FORMAT OF COMMON KNOW-HOW LICENSES — AND WHY

After the patents on the basic concepts of jet aircraft engines had long since expired, and after nearly every major aircraft engine manufacturer in the world had made and marketed one or more jet engines, Pratt and Whitney set about the development of a jumbo jet engine for the early wide bodied jet passenger planes and certain military applications. Using predominantly common "public domain" concepts, but straining to optimize selections from that nonsecret knowledge so as to get a large engine of a new level of efficiency and low noise, and so as to get techniques for its manufacture that would support a moderate cost of manufacture for such an engine, Pratt and Whitney spent what is reported[7] to be \$500,000,000 on that one engine development, alone. A comparable development by Rolls Royce of an engine for the Lockheed 1011 bankrupt the company.

[6] Industrial Innovation Coordinating Committee.
[7] United Aircraft's Daily Newsletter Supplement, July 18, 1973.

If the public is to have any source of supply of such engines, that staggering figure must be recoverable out of engines Pratt & Whitney and the financially re-organized Rolls Royce build and out of know-how licenses, if any, granted to other manufacturers. For the companies will not be here tomorrow who make no profit on today's investments.

But if no royalty is collectable from engines manufactured by the use of elements of information which are neither secret of concept or patented (Cf. *Brulotte* v. *Thys*, 379 U.S. 29 (1964)), then the technology is not likely to be licensed for use in competition with Pratt & Whitney by a party who did not take the half-billion dollar technology-development risk in the first place.[8]

Similarly, petrochemical companies by the dozen, at great expense, build and operate chemical pilot plants by the score and computer models out of expensively developed computer software. They "play" expensive design games with those pilot plants and computer-simulated models, thereby to select and try out bits and pieces of mostly publicly available knowledge, and to evaluate this alternative versus that alternative.

Often their most important "secret" discoveries are those by which they learn just which public domain knowledge *not* to use. Such a secret — knowing what not to use — is clearly knowledge of non-patentable character. Also, all people have access to that same knowledge by simple trials and errors; so the secrecy of knowing-what-not-to-use does not really protect it from becoming known and used by others.

[8] The author of this brief has no source of information on Pratt and Whitney other than public sources and is not informed as to whether such a license exists in fact.

Yet, finding out what public domain information not to use is the most expensive part of very many if not most technology developments. The act of selecting alloy 402 for turbine blades, or an autoclave rather than a tubular reactor, etc., is the act of trying out dozens of other publicly available ideas and rejecting them — finding out what not to use.

The point bears repeating: What-not-to-use is the most expensive business information to come by reliably. Patents do not protect it; and secrecy protects it from derivation but not from independent discovery.

The similarities between the highest technologies and the simple key holder, commence to appear when that truth is understood. The only difference is in cost and time required to engineer and learn the particular technology.

• • •

During the decade of the 60's half a dozen companies were competing in the sale of know-how licenses for the manufacture of high-pressure polyethylene, the licenses commonly being for royalties (among other considerations) intended to run into the several million to ten million dollar range. In these particular license undertakings which extended world-wide with several United States companies granting many foreign as well as domestic licenses, patents to the extent present were a give-away.

The give-away nature of patents in know-how license packages is not at all uncommon. In fact it is common. Why? A company can not license its know-how and then turn around and sue its own licensee for infringement of its patents. So as the relative value of the know-how goes up with increasingly sophisticated plant and product designs and the relative value of the patent portfolio inevitably

declines with expiration of the basic patents in an area, the remaining patents, if any, tend to be thrown into the license package, gratis.

In the polyethylene know-how licenses above referred to, being entered into over 20 years after the original invention, the patents were essentially never examined or evaluated or if they were they still tended toward relatively minor significance.

Most of the basic concepts of high pressure polyethylene had already grown old and were no longer patented in the 1960's; and the improvement patents that still survived were of minor value by comparison with the very sophisticated know-how by which the alternative publicly available concepts were rejected or selected and optimized into efficient and warrantable know-how packages.

The stature of the confidential or "secret" information in the license packages tended not to be of the nature of use of a lubricant in the compressors with the rest of the world not knowing about lubricants. Rather the stature of the secrets was of the form:

> From among the list of 37 lubricants publicly recommended by lubricant manufacturers, we have rejected 36 (and selected lubricant X) because our tests have proven this and that disadvantage in the 36 lubricants in this application.

Consider another example of the stature of the "secrets": The public knowledge already suggesting reactor temperatures of 1000°C to 1200°C (fictional figures used for illustration), and the public knowledge including both simple and sophisticated controls automatically responsive at all different speeds to temperature change, one alleged secret, potentially very valuable, might be:

> "It is very worthwhile to pay the extra price for the expensive controls, so you can then get the efficiencies of operations at 1195° without risking a reactor blow-up."

High pressure polyethylene reactors are built behind literally eight-foot-thick reinforced concrete walls because the process efficiency and product quality requires operation at the very threshhold of explosion, as near explosion as a man dares.[9]

Million dollar values turn on the trade out, high operating temperature vs danger of explosion, and on choice of one among several publicly available control systems by an evaluation of its reliability.

Even when no element of a know-how package is either secret in its concept or patented, it often takes hundreds of thousands of dollars, very often millions, and not rarely half a billion or more, to develop even *publicly available* conceptual information into an integrated package of parameters that has a known and proven cost, quality and reliability of operation.

Every element of many currently used processes for fluidized catalytic cracking of petroleum into gasoline is findable in the literature. Yet several companies still license their expensively developed sophisticated packages of know-how for hundreds of thousands of dollars worth of royalties.

What is the contract formula?

> "I have developed it (or will develop it) and I'll show you how.

[9] A minor loss of process control resulted in a number of major explosions in the 60's at various plants both in the United States and abroad.

You give me a piece-of-the-action, i.e., pay me a royalty on your production for X years.

You keep confidential what I show you so I still have a market for my expensively developed know-how."

The piece-of-the-action payment formula is as American as apple pie.

Neither the de facto secrecy of the licensed know-how nor the term of the obligation of confidence is tied to the royalty term, or vice versa. Very often each individual element of the know-how package is either specifically public information or is mere routine engineering ("routineering") away from public information, given the time and the money to do the "routineering," test for breakdowns and inadequate refinements in process controls and "routineer" some more.

• • •

Sometimes the motivating force in a transaction is an idea owner who is a seller looking for a buyer who will develop and market. Sometimes it is a developer whose business is finding things to develop with some of its own resources. **In either case the likely license formula is a piece-of-the-action in the goods sold, irrespective of life of secrecy or patent protection. — Usually for a finite term like 5 years or 10 years, but irrespective of secrecy or patents.**

• • •

The same story repeats itself with respect to all kinds of technologies, processes and products, ranging from the processes of carbon black manufacture to computer hardware and also computer software. For the most part, conceptually nonsecret and non-patented technologies costing big capital investments to produce for society's benefit.

In the absence of continuing, long term, big capital investments in the inevitably high risk investment that is

R & D, the nation suffers a balance of manufactured goods trade deficit discussed above.

Why royalty payments long after the secrecy is gone?

Why do the buyers of technologies commonly pay hundreds of thousands to millions of dollars for the technology they buy that is not inaccessible to them or very much patented?

Because it is worth the money!

Buying the technology saves the time and expense and risk of repeating an engineering job already done by another. Spending money on your own R & D is up-front money, pre-production money, and *that* money is hard to come by.

But why payment in piece-of-the-action royalities on production long after the same or similar packages of know-how have been sold to and are in use by everybody in the industry?

One answer: Because the parties to the deal find that to be *fair.*

Why, one may ask, should not the law *require* all the money to be paid up front instead of in piece-of-the-action royalties which extend over several production years when little if any important secrecy or patent protection may still be extant? Among many other reasons:

> Because when the buyer wants a complete package of know-how to build and operate a nylon or digital watch plant, the secrets dissipate and sometimes get replaced with new developments by the licensor and the patents expire and sometimes get replaced with others of different value — all in eratic, unpredictable, even *unmeasurable* patterns which have only little to do with the buyer's value received.

Because the buyer is often committing all the capital he can raise, and every buck he spends up front for know-how is a buck he cannot spend on plant capacity;

Because the buyer does not know how well he will succeed, nor how soon, in the market; and he needs the insurance of not having paid so much for know-how that he cannot amortize it over unhappily low production and sales;

Because the licensor-competitor does not mind getting only a little money if his licensee-competitor makes only a small dent in the market, but justly needs a large total consideration to induce him to license an operation which makes a big dent in the licensor's market — and the consideration tracks the market dent to the extent it is royalty consideration rather than other forms of consideration.

Why should not the law set the formula for the consideration? Because unavoidably the law cannot track the commercial realities that are different from case to case, industry to industry, license to license.

• • •

The typical piece-of-the-action contract formula is a win for the licensor, win for the licensee, and win for the public.

Notice that the piece-of-the-action formula is a win, win, win situation for licensor, licensee and the public.

The sellers get a return on their R & D investment; finding R & D investments profitable the sellers are encouraged to spend some more money on R &D from which the whole nation benefits.

The buyers get proven technology they can rely upon, without having to pay up-front money for his own R & D; they get delayed time payment as a proportion of production, immune from cost overruns; they get to put more capital into plant to make more goods for the people to enjoy.

The public has avoided the indirect cost of multiple companies financing the same R & D projects. The public gets timely competitive sources of supply where without the licenses there would be fewer producers, often perhaps only one, and often gets the licensor to pour more money into R & D in his chase for another profit buck at a time when the nation needs more R & D.

As Posner put it: A rational buyer is willing to pay for a property, sums equal to or more than the seller will ask for the sale, only if the buyer believes he can put the property to a more valuable use. Thus

> "* * * resources [tend] to gravitate toward their highest value use if exchange is permitted [and encouraged by the law]. * * *
>
> "By a process of voluntary exchange, resources are shifted to those uses in which the value to the consumer, as measured by the consumer's willingness to pay, is highest.
>
> "When resources are being used where their value is greatest, we may say that they are being employed efficiently." Posner, *Economic Analysis of Law,* Little Brown and Company, 1972.

I say again: *royalties* paid for nonpatented information, which is publicly available by routineering and in that sense is also not secret, is a win, win, win situation for the licensor, the licensee and the public.

• • •

Does all this mean patents are not "involved" in know-how licenses?

Does all this mean patents are of no value?

Does all this mean that patents are not involved in know-how, or not important?

Positively not.

Almost every significant know-how package is — to use the word of one court opinion — "involved" with patents. And patents are "involved" in almost every significant know-how package. For at least some improvements made in each development are arguably patentable improvements and applications for patents are filed on conceptual elements of such work. By informed guess, roughly half of the applications for patent are rejected as was Mrs. Aronson's, or are allowed only after amendment to such a narrow scope that they do not cover the know-how as actually used or any know-how of significant value.

Are patents involved? Almost always, if by that is meant, filing an application on some element of the know-how as Aronson did?

Are the patents important? Very often yes and very often no — in particular know-how packages.

But as a system-service to society patents are vital.

The value of the patent system is greatest with respect to a different part of the technology market spectrum than the less-understood one now under discussion.

For example, as an inducement for basic research out of which the fundamental new concepts most commonly flow, a healthy confidence by capitalists in the protection by patent of the conceptual results of their risk of capital on R & D, is essential. Without it the deterioration of basic research now bemoaned by our government and the entire scientific community, must follow.

The flow of improvements is surely sponsored by the patent statute's protection of "improvements". So —

A viable patent inducement of private capital into conceptual R & D is one of our nation's most important motor-forces without which our leadership of the world would inherently be destroyed.

But it is only one of two such critical motor-forces.

Since the patent clause was written into our constitution (not *per se* to protect the inventor but rather to promote the useful arts for all to enjoy), technology has taken on whole new dimensions of sophistication. — Sophistication such that, the act of taking the patented concept and converting it into efficient devices society needs, is in need of its own motor-force of a return on investment, even after the invention is made.

A given agricultural chemical use of tremendous value to mechanical harvest of cotton was invented some ten odd years ago. The invention was complete. But it cost another million or so to prove safety to the farmer, safety to the cattle which eat the cotton seed, and safety to the people who wear cotton. A hundred years ago, development costs of the then inventions were peanuts beside the coconut costs of conceptual invention; now the development costs are commonly basketballs beside the coconuts.

In our present high technology world the concepts subject to patent protection come with no greater difficulty and are of no greater value than many of the know-how packages of optimized product design or processing information whose primary elements soon are no longer secret or patented though their value continues on.

After the jet engine patents of the thirties and forties expired in the fifties and sixties, the know-how for making jet engines of ordinary performance was publicly available; but taking that conceptual knowledge to a commercially acceptable set of bigger dimensions, better choices of metal

for red hot turbine blades subject to terrific centrifugal forces, more refined choices of turbine blade shape for the best compromise between fuel efficiency, weight/power ratio and noise, etc., undoubtedly cost much *more* capital investment than the several original inventive jet engine concepts — and it certainly has proved vital to the national welfare by making literally thousands of jobs and balance of payment credits for Americans through export of either the high technology products or the intangible technology itself.

The same is true for many technologies.

And the amount and value of *un*licensed know-how, much of it ripe to be induced to market by a favorable and reliable climate of law, surely exceeds the billions of dollars of licensed technology, by factors of 10 or 100 or 1000 — nobody knows how much.

VI.

THERE IS A SIGNIFICANT DISTINCTION BETWEEN THE KNOW-HOW FACTS OF ARONSON BY COMPARISON WITH JET ENGINES AND FLUIDIZED CATALYTIC CRACKING, ETC., BUT THE PATENT LAW DOES NOT ADDRESS THAT DISTINCTION

It is virtually certain that every major know-how package includes at least one element which was the subject of a rejected patent application, and in that sense licensed know-how is like Aronson's license to Quick Point — the patent law is "involved".

By the nature of the Aronson key holder the know-how which retained any residual element of confidentiality after public sale of the key holder, was *de minimis* of character and was of *de minimis* value. Any manufacturer experi-

enced in the line could take one quick glance at it and set up an assembly line to manufacture it almost as fast as the janitor could sweep the factory floor in front of the set-up.

But look at the J-59 jumbo jet engine. Could a manufacturer so looking determine the metallurgy of all its different parts that was required for them to take their respective heat, pressure and centrifugal force loadings — loadings which are not revealed by any look at the engine itself? Could the manufacturer determine the loadings for all different flying conditions, the tolerances of turbine blade shapes, etc., etc., and set up an assembly line to make a copy of the engine in a year's time or at a mere million dollars expense?

Not a chance. If a jet engine (or computer, etc.) were that easy to reverse-engineer from the marketed product, Rolls Royce would not have gone bankrupt designing an engine to compete with Pratt & Whitney's jumbo jet engine. The real-world facts make the lie of ivory towered theories that all valuable secrecy is lost upon the first marketing of a complex product.

Though not secret of concept, in the real world of engineering values, the detailed parameters of the jumbo jet engine remains some millions of dollars worth "*still*secret" even after competitive manufacturers have bought a specimen and examined it for a month. For even then, there remain

(1) true process-of-manufacture secrets of the *Kewanee Oil*[10] type, plus,

(2) every gradation downward to the tolerances in the bearings and the curvature of the blades in the four-

[10] *Kewanee Oil Company* v. *Bicron Corp.*, 416 U.S. 470 (1974).

teenth row — some of them treated in rejected or allowed patent applications.

How does that difference in facts between the key holder case and the jet engine (computer, etc.) case, relate to the patent law?

Congress gave no attention to patent law preemption

The patent right per Title 35 U.S.C. is a bundle of quite particular terms and conditions. By way of very abbreviated example:

(1) To get the patent right, the applicant must publish his concept in his patent. § 154.

(2) To get his patent right, the applicant must dedicate all his rights in the patented concept after 17 years. § 154.

(3) If he gets his patent, subject to the terms of § 283, it may afford the remedy of injunction, of exclusive right to use.

(4) If he gets his patent, subject to the conditions of § 284, it may afford the remedies of damages, of a reasonable royalty, or even of trebled damages.

When writing the patent statute the Congress was addressing "promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries",[11] i.e.

establishing a patent *system*
to promote the useful arts.

[11] Constitution, Art I, Sec. 8, Cl. 8.

In *that* context, where the social value target was a system for "promoting the useful arts", the Congress decided which technology would and which would not

(1) Be of societal value in that system sufficient to be worth a 17 year exclusive right after publication, or as an inducement to get the publication.

(2) Be of societal value in that system sufficient to merit

(a) 17 year injunction;

(b) damages;

(c) reasonable royalty;

(d) damages and royalty multiplied up to three times.

The Congressional focus was of course upon discrete items of conceptual knowledge, each one of which is important and valuable for only those would merit the burdens of patent application procedures at several thousand dollars a crack, would merit 17 year exclusive rights and would merit trebled damages against the infringer.

Deciding that a selected few categories of important concepts of technology would, if published, be entitled to 17 years of exclusive right and to trebled damages, and so expressing, was not in and of itself a nonexpressed Congressional decision with respect to technology which did not so merit 17 years and multiplied damages.

Congress decided in the patent statute, to leave outside of 17-year-and-treble-damages patent coverage, important true inventions made here which happen to have been disclosed in a Chinese language publication circulated only in Peking 366 days before the patent application date.

That decision, expressed by Congress in 35 U.S.C. § 102 to leave that important invention without a patent, was

not a nonexpressed decision that John Doe (who later invents the same invention in Iowa) may not lawfully contract with Richard Roe for development of that invention, in a contract by which Roe sweats blood and money for a year in exchange for a piece-of-the-action on Doe's unpatentable invention, the piece-of-the-action being a royalty on production if the item succeeds in the market.

Congress decided to leave out of 17-year-and-treble-damages patent coverage, not only Doe's re-invention, but Roe's development of the dimensions of the parts and the jigs for easy manufacture where the product will be both reliable and expensive. For if Roe or Roe Company spends a million dollars on the development, the progress of the useful arts is very well served indeed — and Congress certainly did not want to squelch progress of the useful arts.

Congress' non-expression is equal whether Doe or Roe filed an application for patent or did not file an application for patent.

The most meticulous examination of all the legislative history of all our patent statutes makes it clear that Congress *did not consider at all* whether or to what extent or on what terms technology outside the patent's coverage might be contracted for development, or might be contracted to be taught to others, much less what consideration might be paid for such contracts.

And a "piece-of-the-action" in such development contracts, surely is *the* consideration that is as American as apple pie and Chevrolet.

As elsewhere herein developed, know-how is of social value of the same or perchance greater order of magnitude as patents — tremendously important to society. Would Congress have *knowingly* obliterated such values — with silence — when it wrote prolifically on the limits and terminations and waivers and losses of patent rights?

Beyond doubt, when Congress wrote its very expressed decision about the select group of concepts it decided would

be part of a patent system, it did not make any nonexpressed decision on such as

> a contract for development of know-how in exchange for a piece-of-the-action not tied in term to either patents or secrecy.

Congress did not address in the patent statute the difference between that contract or any know-how license and the Aronson license to Quick Point.

VII.
THE DIFFERENCE BETWEEN THE KEY HOLDER AND COMPLEX TECHNOLOGIES IS THE KEY TO A RATIONAL PATTERN OF LAW. — WITHOUT PATENT LAW PREEMPTION

Consider the law of implied confidential relationships, founded as Mr. Justice Holmes said,[12] not on the concept of property but upon the fact that the law makes some rudamentary requirements of good faith in business dealings. — As it should.

A disclosee may have received the disclosure in such a circumstance that the law will imply an obligation of confidence with respect to the disclosure. But for what term?

To what ever extent the confidentiality is in truth destroyed by the information not only instantly available from the marketed product but of such nature that its value would be appreciated by competitors desiring to use it, to that extent the implied obligation to keep the destroyed confidence must die. The law must release any obligation to keep the design parameters of the key holder secret effective upon its general marketing, while not releasing the obligation to keep the confidence of the internal parameters of the jet engine upon its marketing. For the law's

[12] *Dupont* v. *Masland*, 244 U.S. 100 (1917).

implied obligations must be consistent with the real world facts, as fully as possible.

Further, the nation has a tremendous public interest in preserving the incentives to spend the truly big money necessary to develop the detailed parameters of high technology products and processes; and that interest can be served only if the law provides an adequate climate for that technology to be marketed.

• • •

But does any of that impact at all upon *express* contract obligations (1) to keep the confidence, (2) to pay royalties, or (3) to refrain from use of the information? We must address these one at a time, because each is different in its role in commerce and in law.

An express contract to keep the confidence should commonly be enforceable even after the confidential information is no longer secret.

This topic is included for completeness of the pattern. But it is not directly the subject of the present litigation. So we pass it with this short note.

The licensor's most valuable secret from its nonlicensee competitors, is commonly which of the nonsecret items of knowledge it is using or not using.

Thus, though the concept of a CO boiler is common knowledge in the oil refining industry, a licensee's keeping confidential that a company is no longer using a CO boiler may be very important commercially, both in competitive operations and in competitive offerings of know-how licenses.

Further, by the nature of the mix of information in know-how packages, a mix commonly including all degrees

of strong and weak patents and gradually dissipating secrets, a grantor should not be burdened with litigation proofs of when and to what extent the confidentiality of the package has or has not dissipated.

Finally an ongoing obligation in a licensee not to tell others, i.e. to keep the confidence, has no significant adverse effects upon any public interest.

This, however, is a different obligation from an obligation to pay royalties, and different also from an obligation not to use elements of know-how.

An obligation not to use information after it has become not only available from a public source, but available in a form where its value will be appreciated by the industry, has some anticompetitive aspects; but the patent law does not address them; only the antitrust law does.

Consider the Aronson key holder, as our example this time.

What social purpose would be served had Quick Point contracted that after five years it would no longer make the key holder, even though no patent issued and no secrecy then remained?

There then is no patent right to preclude Quick Point from making the key holder. There then is no trade secret right, and no obligation of confidence.

The contract right to preclude Quick Point from manufacture, might well in some other industrial context produce a quite significant anticompetitive effect.

But is that the focus of the patent law? Or of the antitrust laws?

In all the legislative history of all our patent laws, there is not to be found anything that can realistically be called a sentence's worth of affirmative legislative address to producing competition in already available products or processes.

The whole legislative intent was to limit competition in the brand new useful art concept for a special public interest reason, to produce competition in research and development of new products and processes.

An entirely separate body of law and thought has exercised the focus of attention for competition in presently existing products by comparison with competition in producing new and improved products.

35 U.S.C. § 261 says that either a patentee or an applicant for patent

> "may grant and convey an exclusive right *under his application for patent* or patents, to the whole or any specified part of the United States."

If Congress had been paying any attention to obligations not to use the subject matter of an abandoned application for patent, there was certainly a wonderful place to express it, but Congress did not.

So the anticompetitive effects, where they exist, of party A agreeing not to use disclosed information after it becomes nonsecret was not addressed by the patent law. It is addressed only by the antitrust law as was held by the Texas Supreme Court in *Wissman* v. *Boucher,* 240 S.W.2d 278 (Tex. Supreme Court 1951) where the court said at p. 280:

> "However, the existence of the contract or agreement not to make the article [a collapsible fishing pole which had fully disclosed itself upon first marketing] * * * is

> essentially the same as an agreement not to compete. Clearly it was in restraint of trade and therefore not enforcible if unreasonable in its terms. Restatement Contracts, §§ 513, 514. Restraints of trade unlimited as to both time and space are generally held to be unreasonable * * * No reasonable social interest appears to be served by allowing the plaintiff to restrict the defendants in [making and selling the nonsecret collapsible fishing pole]."

But the obligation not to use the information is markedly different in effect, from the contract to pay royalties.

An obligation to pay royalties expressly entered into, was not addressed by the patent law.

If the Quick Point license is to be reformed, it must be reformed under the principles of equitable reformation.

Rational men will on occasion make bad deals. It is at least extremely doubtful whether the courts should attempt to correct all bad deals under any theory of law.

But to be sure, the patent law did not address bad royalty deals.

Though assignments and licenses of patents and applications for patents are authorized in the patent statute, 35 U.S.C. § 261, no mention is made of royalties for either. No mention is made of any cut off of royalties for either.

No legislative history on royalties is to be found in the patent law legislative history.

What about the law of equity?

> "* * * where the mistake was not in any way due to the conduct of the other party, and the latter did not know a mistake was being made, equity may cancel the contract if its enforcement will inflict on the party seeking recission hardship out of all proportion to the

value of the other party's justifiable expectation interest" McClintock, *Principles of Equity*, Second Edition (1948) § 90 at 244.

The fact that the Aronson-Quick Point contract seems to us by hindsight to be a bad deal, coupled with the fact that the law for correcting bad deals is the law of equity not before this court on certiorari, hardly seems to justify Quick Point's:

"Save me from my deal by patent law preemption".

To stretch patent law preemption to such a contract as this, is to use the sledge hammer to kill a fly perched on some of society's finest economic motors — the technology market place that will be put to shambles by the sledge hammer of patent law preemption.

For the public is enjoying competition in production and sale of the Aronson key holder, and sufferith not.

Society, on the other hand, truly needs the freedom of industrialists to contract for technology transfer at prices they arrive at at arms length, for a piece-of-the-action unhampered by the circumstance that batches of the technology pass from true secret to nonsecret and from patented to unpatented in eratic unpredictable patterns almost totally unrelated to the value the buyer gets for his purchase.

But should not *Brulotte* v. *Thys*, 379 U.S. 29, 85 S.Ct. 176 (1964), be applied here? We suggest not.

The only mischief in the contract involved in *Brulotte* v. *Thys* was that the power of the patent had been used as a lever to extort considerations not related to the term of the patent. It was like a tying clause.

Phrases suggesting that such leverage is not authorized by the patent law, or not justified by the patent law, do not change the act into one forbidden by the patent law, or change the wrong from one of antitrust law into a patent law. The patent law did not treat the subject at all, only the antitrust law did.

Because a sharp negotiator can easily fabricate a false record of apparent leverage in know-how as well as patent licenses, Courts should require clear and convincing proof of the improper use of leverage before finding a *Brulotte* violation. But any way you slice it, the *Brulotte* violation is philosophically an antitrust issue, there being no word in the patent law or its legislative history which touches the topic.

If by clear and convincing evidence, the *Brulotte* rule fits the Quick Point contract as a matter of improper antitrust leverage, then it should be applied: but that is not a matter of patent law preemption.

VIII.

THE PATENT LAW DOES NOT — AND SHOULD NOT — PREEMPT FREEDOM TO CONTRACT FOR ROYALTIES IN ANY KNOW-HOW OR TECHNOLOGY CONVEYANCE

Clark Boardman Company's annual book, *Patent Law Review-1973*, published an article co-authored by the author of this brief which develops the history of the preemption somewhat fully. That writing was prompted by the Sixth Circuit's opinion that was subsequently reversed by this Court in *Kewanee Oil Company* v. *Bicron Corporation*, 416 U.S. 470 (1974). That writing also has other values in that it provides a reconciliation of the patent, trade secret and know-how law in the only way this writer knows to reconcile them consistently with the real world of technology economics, and a significant portion of the

philosophy of that writing seems to be reflected in this Court's *Kewanee* opinion.

Accordingly, that writing is appended hereto as Appendix B, and this brief yields to the Appendix B most of the scholastic discussions the preemption cases command for the present cause.

A few points, however, should be summarized here.

While Gibbons does not control
the issue, its historical
revelance give it interest,
meriting mention

* * *

Supreme Court law of federal preemption of state law relating to technology transactions and protection, did not commence with this Court's opinions in *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp.* v. *Day-Brite Lighting Inc.*, 376 U.S. 234 (1964).

A hundred forty years earlier, contemporaries of the Constitution squarely, head on, addressed federal patent law preemption of state law protecting technology by a state patent. — In *Gibbons* v. *Ogden*, 22 U.S. 1 (1824).

Neither *Gibbons* v. *Ogden* nor many of the thought provoking arguments presented to Mr. Justice John Marshall and the *Gibbons* court were cited to this Court in any brief in *Sears* or *Compso* or by this Court in its opinions. Indeed, this Court in *Sears* used a phrase suggesting apparent lack of cognizance of *Gibbons'* relevance or precedent.

The State of New York granted patents as did many states in the early days of our Constitution.

One such New York state patent was to Fulton and Livingston on the steamboat. Ogden matured to title to that patent, sued Gibbons for infringement by the use of steamboats crossing between New York and New Jersey. One

issue as to which the argument summary went on for some 40 odd pages of the original report of the case:

> Does federal patent law preempt the New York state patent?

Answer by the *Gibbons* court:

> The federal interstate commerce law preempts the *enforcement* of the state patent *against interstate* commerce.

And the state patent was left standing to be subsequently relitigated against intrastate commerce.

Why did John Marshall, activist and believer in strong federal government, not strike down the state patent as preempted by the federal patent law? He didn't say; but we can make one informed guess:

> He may have felt the states should have concurrent power to promote the progress of science and the useful arts along with the federal government.

Query: Is there a void where neither states nor Congress can act?

The Constitution Article 1, Section 8, says,

> "The Congress shall have power * * *
>
> To promote the progress of science and the useful arts * * *"

Does that expression suggest a preemption of the state from subsidizing research at its agricultural colleges? OR preempt the state from paying for medical research?

Assuredly, states have concurrent power to promote the progress of the useful arts in *some* manner. No court ever suggested the contrary, until *Sears* and *Compco's* implications came along.

But what of the Constitutional limit on the mechanism by which Congress's power can be exercised?

> "* * * by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

The standard for inventions so patentable is sometimes said by this court to be a constitutional standard. The Congress is said to have no power to grant patents on inventions of a less-than-constitutional stature. *Sakraida* v. *Ag Pro. Inc.*, 425 U.S. 273, 279 (1976).

The less-than-constitutional-standard-of-patentability technology[13] surely is personified by the word "know-how", the accumulation, by routine engineering, of a set of compatible parameters by which to carry a concept into efficient use and public enjoyment (whether or not the concept itself is patentable). Surely that parameter-technology, not reachable by patents, is personified also by many if not most of the items called "trade secrets".

Powers not granted to Congress are of course reserved to the States. So if Congress does not have the power to issue patents on this lesser-order technology, then clearly the federal patent law did not preempt state law in this technology.

For the Constitution left no voids where neither the Congress nor the States had power.

• • •

[13] Many judges and scholars have suggested that if the Congress' *system* is addressed to promoting the useful arts, then individual inventions protected might be measured by almost any standard without violating the Constitutional authority for a system to promote the useful arts. But that point need not be argued here.

Patent law preemption grew
from a phrase into law,
without the economic realities
of technology as a guide

• • •

As developed in Appendix B, the phrase "patent law preemption" of *some*thing (trademarks rather than technology) got itself insinuated into the verbiage of the law in some trademark cases where scholars have agreed it did not belong.[14]

Anyway, in context of those patents-preempt-trademarks cases, came *Sears* and *Compco*, two cases where the decisions below seemed to cry out for reversal on their merits as a matter of state common law. This Court had no power to correct erroneous state common law and grabbed the convenient handle on a federal excuse, patent law preemption, to reverse an error it disliked. — Much as plaintiff here argues for patent law preemption to save it from an obviously bad contract, correctable, if at all, under state equity law but not, we submit, under federal patent law.

Words are only the skin of a thought. When often repeated, even erroneous words take on acceptability that inhibits subsequent careful analysis of their basis.

So "patent law preemption" was expanded and reapplied in subsequent years.

With full honor and respect for the Court, we ask whether it is not fair to observe: Essentially none of the know-how market-place economics reported in this *amicus* brief, ap-

[14] The correct result in those cases was properly reachable in those trademark cases by the application of sound trademark law that a term which has gone generic should no longer be protectable as a trademark; but whether or not an item may have been covered for a time by a patent hardly bears on the issue of what was a lawful brand name or trademark.

pears in the trial record here and none of it was before this Court in evidence or in brief when this Court wrote any one of the modern chain of patent-law-preemption cases, *Sears Roebuck & Co.* v. *Stiffel*, 376 U.S. 225, 84 S.Ct. 784 (1964); *Compco Corp.* v. *Day-Brite Lighting Inc.* 376 U.S. 234, 84 S.Ct. 779 (1964); *Brulotte* v. *Thys Company*, 379 U.S. 29 (1964); *Lear Inc.* v. *Adkins*, 395 U.S. 653, 89 S.Ct. 1902 (1969); *Goldstein* v *California*, 412 U.S. 546, 93 S.Ct. 2303 (1973).

Nor has any brief in any of those cases which are said to bind the Court now, turned up any evidence that the Congress, when addressing the patent law,

> gave any affirmative consideration whatsoever to preemption or to the scope thereof;
>
> gave any consideration whatsoever as to what technology, if any, should be free of royalty obligations by express contract, or free of obligations not to use.

As this Court observed in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974) Congress enacted the patent law in context of an established and uniform recognition of freedom of parties to contract for technology both in the form of trade secrets and know-how, and Congress spoke not on such matters.

Suppose Kewanee had filed three or four applications for patents, had suffered the common fate that the allowable patent coverage some foreign language publication or the like would preclude from commercially effective coverage, and had therefore abandoned its applications for patent.

Should Kewanee's election to "involve" the patent law change Kewanee's right to protection or to contract — by the theory of patent law preemption? What is evil about the option in a technologist to seek and obtain patent pro-

tection being an add-on value with no hidden and unspoken sacrifices by the applicant?

Why not let the applicant *rely* on what Congress *wrote*, that if he accepts his patent he must *publish* a disclosure of the concept sufficient that others may carry out the invention; but if he does not elect to pay the final application fee, his application is "abandoned", 35 U.S.C. § 151, and thereby "kept in confidence" 35 U.S.C. § 122.

The Congress *expressed* that option for the applicant, the courts should not take it away from him under the guise of something the Congress did not express.

But the Court in *Sears, Compco, Brulotte, Lear,* (and *Goldstein's dictum* on subject matter not briefed to the Court), developed and expanded a patent-law-preemption theme so far as to compel the Sixth Circuit's patent-law-preemption-of-trade-secrets ruling in *Kewanee Oil Company* v. *Bicron Corporation*, 478 F.2d 1074 (1973).

On certiorari of *Kewanee* this Court for the first time had access through the evidence and through the *amicus* briefs to at least a small bit of the reality of some economically important aspects of unpatented technology, namely truly secret concepts and processes on which perhaps no patent application was filed?

Kewanee involved truly secret technology for growing scintillation crystals. Truly secret technology, whether or not the subject of applications for patent, benefits society and is of tremendous economic importance to the nation just as is true with each patent and know-how technology which are so definitionally intermixed with it and with each other.

All of the arguments for finding no preemption of truly secret technology, as in *Kewanee*, are applicable to know-

how with its commonly unavoidable mix of trade secrets and patents and detailed dimensions and other parameters.

And in *Kewanee Oil Company* v. *Bicron Corporation*, 416 U.S. 470, 94 S.Ct. 1879 (1974) the there-better-informed Court correctly found *no* patent law preemptions of trade secret technology, contrary to the theme of the prior cases.

This Court's own opinions suggest that the Court must not here extend a doctrine to upset an established status quo without empirical data here unavailable.

In a case involving the public policy of invention-title, the Supreme Court stated:

> The courts ought not to declare any such policy; its formulation belongs solely to Congress. * * *
>
> These are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress.
>
> **We should not read into the patent law limitations and conditions which the Legislature has not expressed."** *U.S.* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 198, 53 S.Ct. 554, 561 (1933) (emphasis added).

It is clear beyond peradventure of doubt, that the "Legislature has not *expressed*" patent law preemption of the freedom, expressly to contract to pay piece-of-the-action royalties for know-how be it unpatented or unpatentable, or secret or unsecret, or any other know-how.

The freedom of parties to contract for the conveyance of any know-how for royalties (with or without trade secrets

or patents) has a history uninterrupted in the hundred-year growth of the United States to be the technological leader of the world (at least until recently), and has a history in which billions of dollars are now invested. That fact brings to mind the weighty admonition of Chief Judge Cardozo in *Color* v. *Corn Exchange Bank*, 250 N.Y. 136, 174 N.E. 883 (1928):

> "Not lightly vacated is the verdict of quiescent years."

Here the verdict has stood for over a hundred quiescent years and supports now a technology activity in the billion-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no national economic data or industry practice information before it, should not devastate such an established business practice as the freedom to contract for technology for a piece-of-the-action.

Recently in *Gottschalk* v. *Benson*, 409 U.S. 63, 93 S.Ct. 253 (1972) and this year in *Parker* v. *Flook*, ... U.S. ...., 98 S.Ct. 2522 (1978), this Court wrote that it should not extend patent protection to new areas of useful arts without a clear indication from Congress which had better access than the Court to the empirical data necessary for sound judgment.

Here we already have a very large, nationally vital institution, the inducement of capital into high-technology developmental work on concepts which very soon after contract time, if not largely so at contract time, tend to become relatively nonsecret and nonpatented.

Surely it would be national folly to debilitate that existing and nationally vital societal motor-force for technology at a time of crisis-level technology shortage, without the

kind of empirical data that can only come from legislative staff investigations, publication of proposals for critical study by industry, public hearings of those who know the effects upon them and the national economy, revisions of the proposal, etc.

The sole thing that is clear, is that state approval of contracts for royalties on unpatented, unpatentable, secret or unsecret — you name it — is not

> "an obstacle to the accomplishment and execution of the full purposes and objectives of Congress"[15]

when enacting Title 35 U.S. Code

> "to promote the progress of the useful arts".

Respectfully submitted

TOM ARNOLD
ARNOLD, WHITE & DURKEE
2100 Transco Tower
Houston, Texas 77056

Attorneys for Amicus Curiae
The American Patent Law
Association

[15] Kewanee Oil Company v. Bicron Corporation, 416 U.S. 470, 480 (1974).

APPENDIX A

Dollar Significance of Unpatented, Accessible Technology

Precise, reliable figures on the flow of dollars under express contracts for the transfer of technology, the elements of which are no longer (or perhaps never were, in part) either patented or rendered nonaccessible by secrecy, are not available.

There are many reasons for this nonavailability of precise figures.

One is the circumstances that many high technology know-how licenses are unavoidably composit licenses of know-how, trade secrets and patents wherein an allocation in precise dollars, to the know-how vs patent aspects of the license, is simply not possible.

A second reason is that very often the confidentiality of a licensed package of know-how can be and is depended upon at contract time to dissipate in eratic and unpredictable patterns (which are almost totally unrelated to the value the licensee gets when he needs an assembled package of reconciled know-how, warrantable to be essentially bug-free and capable of producing X quantity or Y quality product at Z cost and commencing by a date specified).

New conceptual inventions tend at first to be trade secrets while developmental and patent application work progresses, tend in time often to have that secrecy dissipate whether or not patents are issued, and tend to remain a part of packages of detailed parameters and operational know-how irrespective of patenting or of dissipation of secrets. So the definitional intermix of the three items, patents on concepts, trade secrets, and operational and design know-how packages, confuses any effort to put precise dollar figures on the one as against the other.

Further, know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data. Many of the major transactions are in royalty-free exchanges of data with no dollars attached at all, and these too are largely omitted from statistical studies. Further, payments for non-secret know-how are commonly intermixed with payments for other values ranging from secrets to patent licenses to training of the licensee's personnel.

Accordingly, it is impossible to gather precise figures on the dollar volume of non-secret unpatented know-how conveyances by United States industry. But as a rough estimate the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, extrapolation from footnote 7 from the Second Circuit's *Painton* v. *Bourns,* 442 F.2d 216, 224 (CA 2d 1971), etc.

The Survey of Current Business, U.S. Department of Commerce, Vol. 58, No. 3, March 1978, reports identified balance of payments credits from foreign licenses of technology totaling $4,376,000,000.

It is believed that those figures for the most part do not reflect the values in the quite common transactions by which equity in a fledgling company is exchanged for know-how. For example, one major oil company helped set up a large number of companies in foreign countries in the last 20 years, by providing know-how to match foreign capital and got 50% of the common stock in the new company — and the values in those types of equity transactions are largely omitted from the figure sources. We have no source of figures on those values; we do know that the know-how

was very largely unpatented in the subject countries of the license.

The data base also tends not to reflect the values of the barter type of exchange of technology for technology of unstated dollar figure.

The exact portion of the five-billion-plus-a-bunch annual income we can trace to unpatented know-how rather than patents is unknown, but many persons who work in technology licensing believe that the license value of internationally unpatented technology is much more significant than the license value of internationally patented inventions. Domestically, a great deal larger portion of license income is based on U.S. patents and a relatively lesser portion on unpatented know-how.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad,* 14 IDEA 352, Fall 1970. This study is informative, but because precise figures are not available to anybody, including its authors, it does not provide precise answers.

Responsible reviews of the above figures and of the various extrapolations which can be made only by the informed guess of those who work regularly in know-how licensing, compel the conclusion that an order of magnitude of a billion dollars for income to the United States under *international* licenses of unpatentable or unpatented know-how is a plausible figure.

To that billion must be added an unknown but very substantial value in domestic licenses, where the percentage of the value allocable to patents is much higher than in international licenses.

If one capitalizes the annual income to an asset value, the present asset value of U.S. *licensed* know-how is in the order of magnitude of several billions of dollars.

And the still unlicensed know-how far exceeds the licensed know-how. Much of the still unlicensed know-how is ripe for inducement into license by favorable law and policy.

• • •

The final extrapolation of significant interest here: How much of the know-how is truly secret by comparison with being available by routine engineering from public sources of information? The clear and postive answer: Most but not nearly all of it is available by good engineering from public information sources.

How much of that know-how is "secret" turns in major part upon your individual subjective definition of "secret". The *concepts* involved tend often not to be secret; only the *details* of dimensions and process parameters like temperature, pressure, degree of acidity, % of material X or Y, tend to be commonly secret.

The majority of licensed know-how is not in the nature of an entire secret concept for doing X, as in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), because the process ideas and concepts tend, in those environments which are rich with competitive research by many companies, to be published in some patent or by a competitive researcher elsewhere. This publication commonly occurs pretty soon after first commercial use or even before.

But even where the circumstance is that all the conceptual elements of knowledge are readly available from public sources when once someone has outlined the material

to look for, the cost of trying 100 publicly available alternatives and figuring out which ones *not* to use (in context of such as a choice of acidity of slurry, or of centrifugal or gyroscopic force, or expensive vs. cheap metallurgy, etc.) is very important technology to develop, thence to use and market at a profit. For if it cannot be used and/or marketed at a profit, no one can or will invest in that development and the public welfare suffers.

The biggest and most valuable of "secrets", frequently are the secrets of knowing what publicly available information is not good to use. But the vast majority of know-how is in the nature of a detailed set of parameters of dimensions, mix percentages, temperatures, pressures, by which to carry out publicly known concepts.

This detail is secret in the sense of being not published; and if another engineering group set out to engineer a plant, complex product or process, that second group would come up with some often-significant differences.

But another engineering effort would be expected, with some cost and time overruns, to accomplish essentially the same end result with somewhat similar though surely not identical details. In that sense, though subject to the very significant variations that exist in engineering experience and talent, the public has access for the price of a good engineering job to the power to use information to the same end result.

Perhaps the key point on this last discussion: Any legal line drawn between what is secret and what is not secret among know-how, is going to join the group of legal lines that are difficult for courts, lawyers and their clients to follow. And as to royalty payments openly agreed to — a piece-of-the-action contract — why cannot the law trust the parties' deal to be not excessively antisocial?

APPENDIX B

Table of Contents

Shadows Do Not Fight

SHADOWS DO NOT FIGHT

A COMMENTARY ON *KEWANEE OIL v. BICRON CORP.* RECONCILING TRADE SECRET AND PATENT LAW †

TOM ARNOLD AND BILL DURKEE *

I. Introduction

"We must be especially wary against the dangers of premature synthesis, of sterile generalizations, unnourished by the realities of law in action."

Mr. Justice Frankfurter

On May 10, 1973 the Sixth Circuit in *Kewanee Oil Company v. Bicron Corp. et al*, 478 F.2d 1074, 178 USPQ 3, reversing a hundred years of established law, wrote to the effect:

"Policies" of the patent law, Title 35 of United States Code, preempt the trade secret, breach of confidence and contract law's protection of all technology which has been in commercial use for one year and is subject matter appropriate for patent.[1]

The clear effect of the ruling is:

(1) There is no protection of *any* technology[2] which has been used for a year except that afforded by patents.

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* Messrs. Arnold and Durkee are of the law firm of Arnold, White & Durkee, Houston, Texas.

[1] The court expressly declined to consider the broader question of whether ". . . any and *all* state trade secret law [i.e., insofar as it reaches subject matter *inappropriate* for patent law treatment] conflicts with the policies of the . . . Patent Laws", limiting its ruling to the patent law subject matter because that was the only portion of the trade secrets laws . . . applicable to this case.

[2] There are expressions in the opinion which admit to argument that preemption reaches only inventions patentable under §§ 102-103 of 35 U.S.C., i.e., reaches only to inventions not obvious to men of skill in the art in view of all the world's prior published art, while leaving trade secret law standing as to secrets which would be obvious to men of skill in the art who were cognizant of the sum total of mankind's prior published knowledge.

This author and many others have read the opinion as a whole to preempt the much broader area, the subject matter within 35 U.S.C. § 101, i.e., "Any new and useful process, machine, manufacture, composition of matter, or any new and

(2) Employees, subcontractors, know-how licensees, labs which do R & D work by contract for others, are all free to violate their contractual obligation of confidence with respect to the technology others have paid for the development of.

Never have so many persons had their arrangements nullified by so few.

. . .

Harshaw Chemical division of plaintiff Kewanee Oil, alone among all its competitors, knew the process techniques by which to grow 17 inch scintillation crystals. Twenty of the techniques, in use for over a year, though not patented were within the patentable class of subject matter under 35 U.S.C. § 101 and were protectable as trade secrets under Ohio law. The six individual defendants were all former Harshaw employees, bound by employment contracts, each with a particular skill in some aspect of the secret crystal-growing process. Some had left voluntarily, some involuntarily. While Harshaw had needed 16 years of R & D to turn its unique trick of growing 17 inch crystals, defendants turned the same trick in nine months. Said the court:

> "There can be no question on this record but what these individual defendants appropriated to the benefit of Bicron Harshaw's secrets, processes, procedures and manufacturing techniques."

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useful improvement thereof." Clearly a preemption of this section 101 scope is generic to essentially all applied technology having value, to all technology whose valuable uses have been determined sufficiently for it to be the subject of the contract forms referred to in Section II hereof.

Here note that a typical know-how license for a chemical plant would involve thousands of applied technology details, both broad and narrow concepts. Further patentability determinations on inventions clearly within § 101 but arguably not patentable under §§ 102-103, commonly cost years of time and significantly over $2000 in Patient Office proceedings, and more years and commonly over $200,000 in the courts.

It simply is not feasible for society to purport to require expenditures of thousands of dollars times thousands of items, i.e., millions of dollars plus years of effort by highly trained engineer-lawyers, to determine the § 103 patentability of *all* details. The system must find a way to function wherein patentability determinations are made only as to inventions given the broad protection of patents against all 210 million Americans plus foreign operations in the U.S., and are not made as to know-how which is protected only as against a thief or a disclosee who would breach a trust.

The total social cost of the patentability determination inherently limits the patent system feasibility and efficacy to inventions of broad commercial application having big dollar importance; patents are totally unfeasible as applied to masses of more detailed inventions of narrow application.

—And in violation of their contracts.

Held: Patent law "policies" (not statutory expressions) preempt such contracts and all trade secret law applicable to these facts; plaintiff's complaint dismissed.

. . .

There can be no question but that the court wrote a whole new section of the Patent Act, Title 35, which when shortened for simplicity purposes here, reads essentially:

> "Contract, tort and property law protections of trade secrets expire one year after commercial use."

May we call that section X99 of Title 35?

. . .

Such a startling decision, writing a wholly new recitation into the Patent Act, commands a book including chapters on:

(1) Contract types and dollar value, invalidated by *Kewanee's* new 35 U.S.C. § X99. For many contract types were not before the court nor shown to have been considered, either in concept or their billion dollar value.

(2) The pragmatic difference between, and *non*-monopoly character of trade secrets, compared to patents. For the *Kewanee* court, like the writings of Mr. Justice Black before it, speaks and apparently thinks of trade secrets as monopolies, which is a totally false premise.

(3) The vital role trade secrets perform in *contributing* to needed progress in the useful arts. For the *Kewanee* court erroneously suggests that trade secret promotion "would impede the progress of science and the useful arts."

(4) Public policy favoring honest and good faith business practice. For the *Kewanee* court seems to worship free and open competition with a competitor's expensively developed technology, as the one true god at whose altar all other social purpose must be sacrificed without even a favorable comment.

(5) Treaties (which cannot be preempted) establish a federal law of good faith business practice.

(6) The legislative history of the Patent Act. For the *Kewanee* court construes the Patent Act to preempt, without considering the contradiction by its legislative history on the preemption point.

(7) The "legislative" history of the preemption concept as it has grown in the case law. For preemption has developed as erroneous, unanalyzed dictum in nontrade secret cases where the economic significance of trade secret law and practice was never before any court.

(8) The merits of the legislative process by contrast with the judicial process for basic new changes in thoroughly established law upon which industry has built billion-dollar investments. For the *Kewanee* court without analysis of industrial practice or reality acknowledges that decisions contrary to *Kewanee* are to be found in most states, most circuits and the Supreme Court, and that four circuits have since *Sears* and *Compco* concluded contrary to the *Kewanee* construction of *Sears* and *Compco*. Further, the *Kewanee* court acknowledges that the issue of patent law preemption in the field of invention protection has never in 183 years been directly presented to the Supreme Court—which shows enough sociological reliance upon the established rule as to bias now toward change of it only by legislative process.

(9) The nature of the various intellectual property law rights-to-exclude, each standing in the light of its own social purpose, each casting its own shadow of its own scope and premises and term—shadows of social purposes which do not fight each other, shadows which permit one right-to-exclude to begin and expire without affecting the other rights-to-exclude.

These topics will be treated seriatim, as separate chapters.

II. Contract Values and Types Invalidated by *Kewanee*

Common contract forms in widespread use in industry which are essentially devastated by the *Kewanee* rule of patent law preemption of contracts, include these:

A. The Contract for R & D

Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent or university labs. A typical contract, shall we say for research into how to grow large crystals, might read:

> "Company shall pay $500,000 for R & D by Lab. R & D Lab shall disclose the results of R & D to Company. Neither R & D Lab nor its employees shall disclose the results Company paid for to competitors or use the results competitively for ten years."

Since contracts for obligations of confidence are preempted, by *Kewanee's* new 35 U.S.C. § X99, that last clause is a nullity. The R & D Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. If the Lab's employees can do that, indeed the Lab itself after a year's use can disclose the results to competitors perhaps for a little cash, or can set up a subsidiary to compete with the customer for whom it did the work.

Query: Who could afford to contract for outside R & D, if the cream of the results are open for free appropriation by the Lab's employees and/or the lab and/or competitors learning from either of them, within one year? If R & D buyers cannot buy, what happens to all the nation's companies who do R & D work on contract? They go out of business. What then happens to the progress of technology?

B. Subcontracts

Subcontracts for manufacture by a subcontractor, with proprietary know-how of another, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example:

Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's commercial operation. Company now wants to equip all its plants with the new autoclave reactor. Since Company is in the carbon black business with no facilities or know-how for economic autoclave reactor manufacture, it costs Company $50,000 to make a reactor of uncertain life; but Subcontractor which is in the autoclave reactor manufacture business and is set up for that kind of work can make and guarantee them at $35,000 each—provided it is given the secret process-specifications Company has developed. The contract typically takes the form:

> "Company discloses detailed process-specification for new secret reactor to Subcontractor. Subcontractor agrees to make 150 reactors at the rate of one per week, at $35,000 each pursu-

ant to Company's specifications. Subcontractor agrees to keep the specifications secret and to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account."

But the subcontractor's employees cannot, under *Kewanee's* 35 U.S.C. § X99, be bound by the last sentence of the contract. Nor can the subcontractor. Once subcontractor knows the specs, he is invited by the *Kewanee* law to seek in one year to sell the new reactor to all carbon black manufacturers.

Under the *Kewanee* rule, everybody must inevitably avoid as the plague any subcontract of proprietary type work, lest the act of subcontracting effect a publication of the secret specs to all competitors. Thousands of small businesses which live on subcontracts, must die.

C. The Employee Contract

For the reasons inherent in what has been outlined above, hundreds of thousands of engineering and R & D employees are bound by existing contracts with thousands of employers, not to disclose their employer's trade secrets to others. The assets so protected are multi-*billion* dollar values.[3]

By the square holding in *Kewanee* those obligations of confidence are void as to technology in use for a year.

A very important point inherent in this result which was not acknowledged by the *Kewanee* court: The *Kewanee* rule not only opens the door, it affirmatively invites one business's disruptive raiding of key employees of competitors on a regular, planned basis. How much such raiding will in fact occur is a speculation for the future time when, if ever, the *Kewanee* rule becomes accepted law; how debilitating that raiding will be to business is necessarily also conjectural. But clearly, business can not well and efficiently serve society's needs for goods and services and progress in the arts if there is massive employee raiding and no employee stability among those who do the big R & D projects.

Another point: Many businesses now encourage their employees to learn all they can about the technology of their prod-

[3] See Appendix A.

uct line, believing that the salesman is a better salesman if he knows, the vice president is a better vice president if he knows; the service man is a better service man if he knows, etc. But every raidable employee is a potential leak. If none of them can be trusted to keep the secrets, then businesses must bias their internal practices toward insulating all employees from knowledge he does not have a direct important need to know—with resulting loss of efficiency throughout the enterprise, with loss of the values of cross-fertilization of thought among technologists, etc.

D. The Know-How License Contract

Technology within the *Kewanee* rule is a commodity bought and sold in the market place primarily by the device of the know-how license.[4]

The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude.[5]

Individual licenses for chemical processes and plants therefor have in the decade of the 60's gone at prices quite often in the multi-million dollar range.[6]

But under the *Kewanee* rule, to offer to sell your know-how, to offer a license for valuable know-how at an appropriately big price, is an invitation to your offeree to come raid for key technical employees, thereby to get for a couple of $25,000 bonuses to the key employees what otherwise would cost perchance several hundred thousands or millions in a know-how license.

[4] Here note that the bulk of the value in know-how licenses commonly is not in concept, truly "secret" information.

For example, all the essential elements for the manufacture of polyethylene, carbon black and many other chemicals, are now published in the literature including patents. But the wheat elements of information are relatively few and are scattered among and lost in a mountainous haystack of chaff information.

In the haystack of mankind's technological knowledge that is an impossible data retrieval problem, the publicly available items of knowledge are not evaluated *as against* the hundreds of alternative suggestions also available. The reading of an item of information in a publication does not give the reader the kind of value judgment that experience in use of the item in several contexts and various parameters gives. The essence of know-how is the experience-value-judgment added onto the otherwise sterile knowledge of the concept.

[5] See Appendix A.

[6] See, for example, Imperial Chemical Industries, Inc. v. National Distillers and Chem. Corp., 342 F.2d 737 at 744 (2d Cir. 1965) where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor

Under the *Kewanee* rule know-how licenses can never again be offered freely in the market, can not move in the market place at prices commensurate with the value of the know-how. The foundation stone of all economics, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

E. Access to Foreign Technology

United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the *Kewanee* rule.

But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. licensee cannot be bound to honor the obligation of confidence—nor thereby can the U.S. licensee be held accountable.

For a German company to license, shall we say Bethlehem Steel Company, in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies all raid Bethlehem's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. *Kewanee* forces the German company to refuse to license U.S. buyers of technology.

Moreover: The raiding by the several of the employees of the one licensee, Bethlehem, may conceivably be faster than the Bethlehem employees' learning rate. So Bethlehem, the licensee in our example may never get effective operating knowledge of what it paid for, even if it could get the license.

The *Kewanee* rule is thus seen severely to deter U.S. industry access to foreign technology.

F. Know-How Sale to Foreign Purchasers, and our Balance of Payments Deficit

United States industry now receives payments approaching the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the *Kewanee* rule.

At a time when the U.S. balance of payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations.

But under *Kewanee* the potential foreign licensee will pay a few $10,000 bonuses to key employees, set them up in Cleveland or Cincinnati teaching what they know, and get sometimes 80% of the same know-how they now pay hundreds of thousands and millions for.

The *Kewanee* rule would be a significant blow to the national effort to restore a favorable international balance of payments.

. . . . .

So far as appears, the court in *Kewanee* gave no consideration to any of the factors above, except the specific issue of employer-employee contract.

When the meaning of a phrase actually written in a statute is being interpreted, disregard of the economic impact of the construction may perhaps be justified.

But when as here the court is writing into the Patent Act a wholly new provision not in the statute, our "§ X99" that trade secret rights expire one year after commercial use, it behooves the lawmaker to hear evidence on and consider the economic impact of the new section it writes into the Act for the Congress.

As Churchill would say it:

> Never have so many had their arrangements nullified by so few.
> —Nor with so little of the total picture before the few.

III. The Legal Theory of Trade Secrets [7]

The trade secret law seems to have grown naturally out of tort, agency property and contract philosophy and social purpose.

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[7] This section deals with the trade secret as an extension of patent monopoly as opposing the patent as an extension of trade secret *non*monopoly.

I use the phrase "patent monopoly" because the court did, but this is not correct in pragmatic reality. And there is much mischief, when theorizing on public policy, in thinking of patents as being more monopolistic than they really are.

A patent by legal definition covers only things not before known or used, nor to those skilled in the art obvious from all that was before known or used. Hence, it takes nothing from the existing public enjoyment.

Until very recently no one ever questioned its social propriety based on a sort of writer's-choice of any one or more of these four grounds.

If it cost $500,000 to engineer into a working process, the concepts of which were already disclosed in patent, trade journals and college texts, it was natural to property law concept that the party who spent the $500,000 should own the technology it paid for.

If an employee were entrusted with his employer's confidential business information, it was natural to the tort and agency law concept that he be obligated not to breach the trust, the obligation of confidence.

If the information were licensed by contract to another company, so that it could avoid the risk of R & D failure, the time required for major developments, and the inevitable cost overruns, it was natural to the freedom of contract concept that the contract be honored. No evil was seen in a contract. "I'll pay X dollars for your secret and I won't tell anyone what it is."

Although trade secret protection is vital to proper sponsorship of progress of the useful arts,[8] none of these social purposes out of which trade secret protection arose are quite the same as the copyright or patent social purpose to induce progress in knowledge and the useful arts. None of these socio-legal purposes had to do with trade or competition except as possibly happy incidents. They had to do with property and good faith and ethics and equity.

None of the socio-legal concepts had a time factor in them and no time factor is found expressed in the law (contrast the facts)

A patent, working in that context, only rarely monopolizes a relevant market. Bulova's patent on its Accutron tuning fork watch movement has great commercial value, but more nonAccutron than Accutron movements are still sold and Accutron movements must remain more price competitive than not. Polaroid's patents on instant snapshots are of great value; but more noninstant than instant pictures are still taken and Polaroid cameras remain more price competitive than not, with German, Japanese and other United States manufacturers. Xerox by its tremendously dramatic improvement in the cost/quality ratio over heavy-paper photostatic negatives and fragile heat-process Thermofax copies, enlarged the office copy market many many fold; but it seems an absolutely sure bet that there are now many more nonXerox machine copies made than were made by all the industry before Xerox so served the world with its lower cost copy.

Patents are not "monopolies" because the things they cover remain subject to competition from what the public used before as well as what competitors invent anew to stay abreast.

[8] See Section IV hereof.

of trade secrets. Thus, in *U.S. v. Dubilier* the Supreme Court said at p. 186:

> "He [the inventor] may keep his invention secret and *reap its fruits indefinitely.*"[9] (Emphasis added)

As a parrot speaks without thought or comprehension of his meaning, so some have translated the lack of time factor in trade secret law into an allegation that a trade secret has no time limit, is in some way equivalent to a perpetual patent or to a monopoly, or that a trade secret "extends" the life of a patent. Nothing could be further from the truth.

The foundation stone of all trade secret *remedies* is a relationship between two parties, a discloser and a disclosee. —An obligation of confidence between a disclosor and disclosee. In the most famous of United States Supreme Court trade secret cases, Mr. Justice Holmes reminded us:

> "The word "property" as applied to * * * trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. * * * The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that defendant stood in confidential relationships with the plaintiffs." *Dupont v. Masland*, 244 U.S. 100 (1917).

In trade secret law, the *relationship*, not the *res*, is the thing.

Thus the remedy in trade secret law does not control the technology, only the processes of derivation of the technology. It keeps the disclosee ethical. It keeps the know-how acquisitions both ethical and consistent with the inescapable hard realities of R & D economics in action, that he who pays must have a right to control and market what he paid for, else he soon can no longer pay for R & D. But R & D is open for all to enter.

The trade secret social purposes do not prevent others from using public sources of information, do not prevent others from developing the same new technology themselves and using it and also selling and licensing it. Frequently a number of companies are competitive bidders to licensing their technology for manufacture of the same product.

[9] U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 186, 53 S. Ct. 554, 557 (1933).

As to each individual secret the obligation is commonly only of one or two people (disclosees), or four. Of hundreds of reported cases reviewed none has been noted to involve more than 10 disclosees (though some know-how packages are licensed to many buyers whose total informed employee group must sometimes exceed ten persons). *The remaining 210 million Americans and all billion or so foreigners remain free to develop, use and publish the same concept.*

This of course is not to say there are millions or billions of de facto potential competitors. Those people here and abroad have organized thousands of industrial businesses. By virtue of interest background, capital structure and geography, the number of for-real potential competitors may be only a dozen in some areas of technology. But both domestic and foreign businesses are dynamic, not sterile or static. They continuously search for and find areas of public need that can be profitably served. For social planning purposes they can be depended upon to leave no significant public need, long unserved. —Not if the need is important enough for a buck to be made in serving it.

This is a key point in the picture; every manufacturer assumes and knows in today's high paced world that *if his secret process or manufacturing jig is worth competitive pursuit*, his competitors will find it, or its equivalent, or its improvement, in a very few months or years. —Like two, four or ten months for any individual secret. Even for whole chemical-plant-process and related plant equipment, two, four or six years almost at the outside, and for all practical business planning purposes, essentially never longer than eight years. (Long term know-how licenses most commonly have continuing R & D service features).

So, de facto, trade secret protection is not only uncertain in time, it is short termed in time of protection in all but a de minimis number of cases involving surely less than one-tenth of one percent of technology value. It is essentially never monopoly power even for a few years. Law must not let so diminutive a tail wag the entire dog of technology practice.

And as to products which are placed on the market and are available for competitive purchase and reverse engineering, the competitive access is commonly almost instant and always pretty quick.

It was apparent even before Galileo's day that men would not

for long, yea could not for long, put their mind to making contrivances for the benefit of realm, if the results of their investment were not to be *better* protected than secrecy permitted.*[1] The point then, as in our Constitution, clearly had not been to confiscate men's conceptions, to take away the personal property right of a man to keep his secret; it was to "secure" in him some rights *beyond* what his secrecy would normally afford him—for "securing" the otherwise uncertain protection would promote the progress of the useful arts.

The patent grant authorized by Title 35 United States Code is an effort at that.

Instead of the uncertain protection time of zero, two, four or six years which secrecy affords only in an erratic pattern of *some* instances, the patent grant is affirmative for 17 years for only the important inventions that qualify for patents, irrespective of secrecy. Instead of a trade secret right against the one, two or six disclosees, with the rest of the entire world's millions of people in thousands of industrial businesses (present and potential) free to develop independently, the patent right is against not only the 210 million people in thousands of businesses in our nation but also against all foreigners who would practice the invention in our nation (and foreign industry is very active in our nation).

The trade secret never inhibits the dozens to thousands of actual or potential businesses in their use of any merely *alleged* secret which is in fact publicly available, nor restricts competition in things already in the general public enjoyment, for there is no confidence to be breached if the public has general access to the secret. The trade secret is thereby inherently concerned with new things in process of being brought into the public enjoyment, and mightily *contributes* to competition at this vital threshold, the threshold of new technology.

The trade secret is thus seen to be not de facto a monopoly right. For it, its equivalent or its improvement is too available to too many potential competitors, whenever it is valuable enough to justify their effort. The more the commercial value, the quicker the competitor can be trusted to develop the same thing or take a license.

The trade secret is not monopoly oriented, but ethics and equity oriented.

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*[1] See Section VII and the text related to N. 17, infra.

IV. Trade Secret Theme Protection Is at Least as Important to the Progress of the Arts as Are Patents

The court in *Kewanee* quoted with approval writings on the alleged mischief of trade secret protection and wrote always consistently with an erroneous premise finding of fact that: Trade secret protection is inconsistent with progress of the useful arts and patents are the only inducement to such progress.

The court had no evidence on such a fact finding before it, no testimony of business men who budget R & D or buy or sell its resulting know-how, no testimony from technology economists. The court was indulging "sterile generalization, unnourished by the realities of law in action."

It seems a possibly interesting exercise to indulge some ivory-tower theorizing of our own by way of contrast.

. . .

Patent validity is determined by an unrealistic and harsh standard. Valid patents are limited to inventions which by judicial hindsight are held to have been nonobvious in light of carefully selected and juxtaposed portions of all the sum total of mankind's prior published knowledge. The selection and juxtaposition of the few items of prior art from the millions of prior items of knowledge is by use of the invention itself as the screening tool which separates out and arranges together perchance three needles of compatible knowledge from a mountain-sized haystack of chaff prior knowledge.

Three or four prior art ideas, scattered among all mankind's prior relevant and irrelevant knowledge, often do not jump forth together as compatible for a new inventive function. But a patent infringing plagiarist will take invention parts disclosed in the patent itself, and search for thousands of dollars worth of time to find and select those particular kernels of wheat information and screen out all the chaff information. Then when defense counsel puts them into physical juxtaposition before the judge, explaining just how they can be fit together, those same three or four prior art references then *appear* in that *hindsight* review to have been obvious to select and obvious to combine. When the defense counsel concludes his pitch, no judge can really separate himself from hindsight psychology and put himself into the art with the men who worked there as of years-earlier time.

By contrast the foresight-developer, upon whom society inherently relies to progress the useful arts, cannot ever really know and have mental mastery over all possible relevant prior knowledge ("prior useful art"). Yet he inevitably does have knowledge of tremendous masses of chaff art and little to guide him as to which of the items of art are the technically feasible items or whether if technically feasible they may be commercially economic to combine in his particular application.

So the foresight developer must spend many R & D dollars trying to select the useful needles he may not know of and may not believe are there, from the haystack of chaff art he does know of or have library access to, often without faith that an answer exists anywhere, without benefit of the patent infringer's certain knowledge that the answer both does exist and is economic, and without benefit of a screen for separation of useful from chaff knowledge.

Thus, inventions which are hard and expensive to make and develop are by the nature of the patent law quite commonly not protectable by that law.

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on an R & D budget or to reduce losses being suffered by an R & D budget. They are very important. But they are worth much too little to support all the economic requirements of new technology which includes many many more failures than successes.

. . .

Another point clearly misunderstood by the *Kewanee* court is this: Patents by their nature cannot and do not disclose all new technology; the patent is not a carrot that *can* fetch public disclosure of the mass of technology within 35 U.S.C. § 101.

The manufacturing specifications for each application of a patented concept may represent hundreds of thousands or millions of dollars' worth of engineering time [10]—distilled and developed know-how that others could develop from patent and text book disclosures but only at a similar cost in market lead time and money.

[10] Many developments (e.g. see N. 12 infra) cost hundreds of millions of dollars.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed, long after the patent issues, even after it expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent on the turbine concept is filed; and a steam turbine applications engineering might be developed while the patent application is pending; and the jet engine applications engineering might be done not by the patentee but by a patent-licensed competitor five years after the patent issues and again by yet a foreign competitor selling a much larger model in the U.S. five years after the patent expires.

Inherently, a patent cannot disclose the engineering detail for all applications of the inventive concept—no building in Washington would hold all the paper even if it existed at application filing time which it does not. Consistently with those pragmatic facts of life the patent statute requires only a disclosure sufficient to permit others in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of *one* mode, i.e.,

> "the best mode contemplated by the inventor of carrying out his invention" [inherently, at application filing time]. 35 U.S.C. § 112.

Other modes including the engineering details of such other modes, *by statute* need not be disclosed in the patent—many of them simply *cannot* be. The patent law does not purport to protect the engineering detail, the specifications producible by a number of engineers in the art once the concept is in hand. The patent law does not treat this know-how at all, one way or the other.

There can be no "conflict" with the patent law's treatment of trade secret know-how, if the patent law does not treat of it at all, one way or the other.

. . .

A made-up but real-life example will make understandable the point that know-how protection by trade secret law, independent of patent law, is vital to progress.

Assume a 1968 reality that the broad concepts of internal com-

bustion turbine design [11] are available to industry either from history at no significant cost, from the subsidized academic community again at no significant cost, or from prior government research, again at no significant cost. The concept was disclosed in patents in the thirties and had been successfully applied to military aircraft in the forties.

Project: Design a 1973-generation jet engine for the Lockheed air bus. It must meet new high performance specifications as to thrust, speed, fuel consumption, air pollution, noise, light weight, flexible controls, serviceability, service life, manufacturing ease and cost—on all of which the know-how is confidently stated to be "available."

Even with the then generation of Pratt and Whitney and General Electric and prior Rolls Royce jet engines, used both on U.S. and foreign commercial and military aircraft, from which to draw such ideas as are available on the open market, essentially that very project, above outlined, proved so expensive in time (years) and money (hundreds of millions of dollars)[12] as to bankrupt one big jet-engine-experienced company, Rolls Royce, and contribute to Lockheed's having to ask the U.S. government to bail it out.

The choice of details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on blades, pressure on gas and air to burn how fast—the distillation of a million "obvious" details into a compatible package of engine and related manufacturing know-how that progressed the useful arts, has to be paid for by somebody or society will not enjoy the progress this new, bigger, better engine affords.

From the advancement of the art point of view and from the economic point of view, no one could care less whether the requisite protection is by private self-help (e.g. secrecy) or by government grant (e.g. patent) so long as the protection is feasible to the inherent facts of public enjoyment of the fruits of the technology and is effective enough to permit recovery of the investment and a profit thereon.

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[11] This author's college thesis in 1943 was on such turbines; hence this choice for his example.

[12] United Aircraft's *Daily Newsletter Supplement*, July 18, 1973 reports the development cost of Pratt and Whitney's JT9D for Boeing 747s and DC-10s as "half a billion dollars."

Assume a not-unlikely fact, that Pratt and Whitney had already done most of the half billion dollars' worth [12.1] of work to produce an engine at least 90% as good as the new Rolls Royce engine and has been using it for a year in making engines for, perchance, Boeing 747's. Would society be served by permitting Rolls Royce to hire a dozen Pratt and Whitney select top engineers and use all their know-how?

With much of the development cost and time saved, Rolls would have been saved from bankruptcy and would be able to sell its engines earlier and perhaps 20% cheaper which clearly would serve the public with cheaper air travel—and which would likely bankrupt Pratt and Whitney because then it would either (a) lose its sales to Rolls Royce and fail to recover its tremendous development costs, or (b) cut its price to get business, by roughly the amount of the development cost that its competitor did not pay for, and thereby fail to recover its development costs.

—Which must mean that next time the money won't be available to commit to the development.

—Which must mean stagnation of the advance in the art.

Examples of society's need for patent protection are skipped here, for they are not the point of this paper; but by this example, of which many abound, it is seen that patents are often inconsequential to industry's need for technology protection in situations wherein protection of unpatented know-how may be vital.

Overall, the R & D dollar, on which the nation is critically dependent for the advances necessary to maintenance of its standard of living in a growing society with diminishing resources, cannot be supported by either trade secret or patent protection alone.

. . .

The trade secret protection is limited by such factors as: The trade secret is limited to the few people involved in the disclosor-disclosee relationship;

Billions of people domestic and foreign, college professors and university doctorate candidates, dozens, hundreds or thousands of businesses, are free to develop and use and/or publish the same thing and improvements thereon;

[12.1] Id.

There is a high dependability of timely competitive development of any secrets which are commercially important enough to justify the effort;

Trade secret subject matter is limited primarily to things not disclosed by the marketed product but rather practiced in-house;

Know-how licenses on the really big developments are commonly available;

—These and other factors limit trade secret protection at its worst to an inherently minor restraint on trade, nowhere near a monopoly. —Most commonly as minor as a pitcher of water is to the swimming pool.

The minor restraint, if any, is to be balanced against public policies favoring the right of personal property (which trade secrets assuredly are), the right of privacy (should proprietors be forced to cough up their secrets to competitors after one year?), the social need for business ethics and business's capacity to en*trust* a confidence to a business associate, and the need for business men to be able to enter into license contracts, R & D contracts and subcontracts for manufacture with proprietary know-how.

. . .

The patent law, as to important conceptual innovations is a needed statutory extension (both as to what otherwise would be secrets and also as to nonsecret inventions of patentable stature) of the common law trade secret right to protect secrets; this needed extension of trade secret protection is not a derogation of it.

Trade secret and patent law are like two horses hitched to the same public-interest-carriage—competition in innovation, competition in R & D, competition in bringing to public enjoyment things which are not yet there. And no pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology cannot ride.

Nevertheless, arising out of different socio-legal philosophy they also are as different as a car and jet airplane which, while both providing transportation, are in no meaningful way equiva-

lent, not in scope, not in persons affected, not in effective term, not in power of competitive restraint. And neither of them are anything near "monopoly."

V. Public Policy Favors Honesty and Loyalty

Except for citation of two prior decisions which sustained breach of confidence causes, the *Kewanee* opinion gives no reference to the concept of trust, honesty or loyalty of employees to their employer, no mention of ethical wrong involved in a business reaping where it did not sow.

What ever happened to the morality of our forebears? Is there no social merit to such expressions as "A man's word is his bond?" Has society no use for the concept of "trust," by which one man may entrust a confidence to another—and depend upon it.

What moral justification exists for A taking the value that B paid to create? What equity?

The *Kewanee* opinion encourages and sponsors the taking by indirection (by employment of the memory of another's employee) of the same technology value that by the *Kewanee* court, the Sixth Circuit, is still labeled the crime called "theft," if taken by the direction of the employee's taking documents with the same secret processes written thereon.[12.2] Theft by any other name remains the same moral wrong. The possible existence of a federal criminal remedy under 18 U.S.C. § 2314 for secrets sold in interstate commerce is no substitute for a civil remedy for the party wronged.

Surely there must be a social policy favoring loyalty among friends, associates and employees, favoring an esprit de corps and morale by which employees serve their employer with their heart as well as their hours. For business efficiency and hence capacity is importantly related to the loyalty and employee esprit de corps. If all the heart is taken from business relationships by law which sponsors disloyalty, the business community will assuredly cease to be able to serve society well.

[12.2] U.S. v. Greenwald, 479 F.2d 320 (6th Cir. June 1, 1973), cert. denied — U.S. — (1973), petition for writ filed June 28, 1973, held an attempt by a former employee to sell trade secrets, violated the federal criminal law 18 U.S.C. § 2314 proscribing transportation of "goods, wares and merchandise" in interstate commerce knowing them to have been "stolen, converted or taken by fraud."

All will recall the memory expert spy of the World War II movies who got jobs in U.S. plants, memorized data and disclosed it to the enemy. The *Kewanee* rule sponsors that spy-by-memory practice, as between domestic competitors and also by a foreign competitor seeking U.S. technology.

It is morally repugnant for spying to be sponsored by law.

When so many are free to compete, is freeing the competition of those very few who are disclosees sufficiently important to justify debilitation of honor, integrity, loyalty, and the property-like concept that he who foots the bill for producing technology should own the product to the extent of freedom against tortious breach of trust?

VI. Treaty Law Compels Good Faith Business Activity

The Paris Convention and the Pan American Convention,[13] both treaties to which this nation is a party, proscribe acts "contrary to honest practices in industrial and commercial matters" and acts "contrary to commercial good faith or to the . . . honorable development of industrial or business activities."

The Supreme Court in *Bacardi v. Domenech* wrote:

> "This treaty [Pan American Convention of 1929] on ratification became a part of our law. No special legislation in the United States was necessary to make it effective." [14]

The Paris Convention has been repetitively held in the 9th Circuit [15] to be implemented in the Lanham Trademark Act of

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[13] Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) recites "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." [which is prohibited]. Pan American Convention of 1929, Art. 20, reads to the effect, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

[14] Bacardi Corp. v. Domenech, 311 U.S. 150, 161, 61 S. Ct. 219 (1940).

[15] Stauffer et al v. Exley, 184 F.2d 962 (9th Cir. 1950); Pagliero v. Wallace China Co., 198 F.2d 339 (9th Cir. 1952); Neal v. Thomas Organ Co., 325 F.2d 978 (9th Cir. 1963) cert. den. 379 U.S. 828; Audio Fidelity Inc. v. High Fidelity Recordings, Inc., 283 F.2d 551 (9th Cir. 1960); Magna Pictures Corp. v. Paramount Pictures Corp., 265 F. Supp. 144 (C.D. Cal. 1967); Ross-Whitney Corp. v. Smith Kline & French Laboratories, 207 F.2d 190 (9th Cir. 1953).

1946, 15 U.S.C. § 1051 et seq. particularly Section 44(h) of the Act, 15 U.S.C. § 1126h. Other circuits take a contrary view.[16]

But *Bacardi* has not been overruled on the point that the Pan American Convention is self-implementing. Hence, either way you figure the point of whether the Lanham Act implements the Paris Convention, there would appear to be treaty law of the land, a federal law not preempted by patent law, which condemns breaches of confidence as surely as the state law of trade secrets.

And the treaties, both ratified by the Senate, reflect a Congressional attitude inconsistent with judicial disregard of "good faith dealings" in business and industry.

VII. Legislative History of the Patent Act

The *Kewanee* opinion does not reveal any interest in or attention to the legislative history of the drafting of past or present Patent Acts.

Since the *Kewanee* rule is in the nature of writing a new section X99 into Title 35, since it is the writing of a one-sentence statutory section that is clear and easy for the drafters of the Patent Act to have written if they so intended, it seems appropriate that we should review the legislative history of the Patent Act.

A. The Constitution on Patents

Patent law has been recognized at least since the 1474 patent statute by the city-state of Venice, which statute reads in part:

> "And should it be provided that the works and contrivances invented by them [men of clever minds], others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our state." [17]

That clause found its way, in paraphrase, into our own Constitutional Art. I, Sec. 8, Clause 8:

[16] *L'Aiglon Apparel v. Lana Lubell*, 214 F.2d 649 (3d Cir. 1954); *Royal Lace Paper Works, Inc. v. Pest-Guard Products, Inc.*, 240 F.2d 814 (5th Cir. 1957); *American Auto v. Speigel*, 205 F.2d 771 (2d Cir. 1953), cert. den. 346 U.S. 887; *Maternally Yours v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1956); *Kaz Mfg. Co. v. Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2d Cir. 1963).

[17] Patent Study No. 15, 85th Congress, 2d Session (1958).

> "The Congress shall have the power . . . To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Power not given Congress was of course reserved to the states. Hence, *there is no void created* wherein powers not granted to Congress were nevertheless denied to the states. Preemption thereby can not be larger at its biggest, than Congress's authority.

The Congressional authority is concurrent with that of the states, not to the exclusion of the states.[18]

A key point overlooked in all the preemption opinions is that the Congressional authority is dominated by the conjunctive preposition "by," which ties the purpose to the means and the means to the purpose, inseparably.

The Constitutional grant is of power to set up one system (not necessarily the only system) but for *one purpose only*, to promote the useful arts. That purpose is tied to a single recited means.

The means designated as Congress' only way to implement the one purpose, was to secure rights to inventors. But the use of the means, securing rights to inventors, is empowered to Congress only for the one social purpose, promoting the useful arts, *and no other purpose*.

It is palpably false to suggest that Congress granted any prerogative to use that means, securing rights, for any other purpose, like business ethics and equity.

Use of that means for all other social purpose, like establishing business ethics and equity, was reserved to the states.

. . .

Recall that in England and in our colonies, circa 1788 when our Constitution was being phrased, importers of inventions from other countries, who were not inventors, were commonly awarded patents. Soon thereafter states of the United States granted patents to noninventors, clearly for the purpose of promoting the useful arts.

For example, New York granted a series of steamboat patents, first to Fitch whose patent was later canceled, then to Livingston, later to Livingston and Fulton, the latter of which was the sub-

[18] Cf. Goldstein v. California, — U.S. —, 93 S.Ct. 2303, 178 USPQ 129 (1973), holding the copyright portions of the same balanced sentence in the Constitution which authorizes patents, is a grant of concurrent not exclusive rights, to Congress.

ject of *Gibbons v. Ogden.*[19] Clearly Livingston neither conceived nor reduced the steamboat to practice; he was merely Fulton's financial investor and an influential benefactor; he was not an "inventor." But the New York patent to this noninventor, among others, was conditioned that within twelve months there be "built a boat of at least twenty tons capacity which should be propelled by steam, and the mean of whose progress through the water with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour.".

Clearly the Constitutional clause did not give Congress the power to grant such patents to noninventors.

The patent clause of the Constitution did not give Congress the power to grant cash awards to distinguished inventors to induce progress.

The patent clause did not give Congress the power to do its own R & D to promote progress—not the patent clause.

Promotion of the useful arts by means other than securing rights to inventors, was power not given to Congress; rather it was expressly reserved to the states.

So states have the power to promote the useful arts, for example, (a) by awards to inventors; (b) by state R & D efforts through state-supported universities; (c) by *granting exclusive rights for limited times to noninventors*, whether or not the subject matter is patentable or has been in use for more than one year.

All of this, including the state right to protect "unpatented articles" was argued to the Supreme Court in *Gibbons v. Ogden.*[20] Daniel Webster, and more completely the Attorney General, argued that the steamboat patent granted by the State of New York to Fulton and Livingston and acquired by Ogden, (i) was a nulllity by virtue of federal patent law preemption and, (ii) could not be enforced against New York-New Jersey steamboat traffic because it was in interstate commerce, duly licensed pursuant to the commerce clause. Mr. Oakley in arguing in response to both patent law preemption and commerce clause preemption delivered the most complete argument against federal patent law preemption that has ever to this day been assembled anywhere. The report of the case summarizes Oakley's

[19] 22 U.S. 1 (1824).
[20] 22 U.S. at 142 (1824).

nonpreemption argument for over 40 of the original opinion pages.

The court could decide the case for Ogden on either of Webster's two grounds, or both. One of the great judicial activists of all time, John Marshall, finding that the state patent could not be enforced against expressly licensed interstate commerce declined to find on patent law preemption and left the state patent alive to be litigated again at a later date as against intrastate commerce.[21]

B. The Patent Statutes, Generally

Various patent statutes were enacted under the constitutional clause.

All spoke in terms that an inventor has the option (e.g. "may") of applying for a patent—noninventors need not apply.

All spoke in terms that patentees would have X years (now 17 years) of protection.

A disclosure of the invention of at least some sort is inherently required in order to identify the thing patented; but the public service aspects of the patent disclosure seems to have found expression only in modern literature—it seems not to have been on anybody's mind at least until after 1850.

The patent statutes were property-philosophy statutes, "securing" in inventor's their somehow inherently natural "property" right in their invention, the honor to the natural "property" right being also the carrot by which to induce both the sweat of inventors and the capital of their financial backers into R & D and also into market development.

The earliest treatise authority on patent law spoke of their relation to trade secrets, thus:

> "As the right of an inventor to his secret invention and to a remedy for the wrongs by which his property therein is injured, *are not dependent upon the provisions of the Patent Law, they exist equally whether the invention is or is not in its nature patentable. . . .*
>
> "If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, *as also to communicate it confidentially under such restrictions as he deems ex-*

[21] The North River Steam Boat Company v. John R. Livingston (son of Fulton's friend Robert Livingston), 3 Cowen 713 (N.Y. 1825).

pedient. . . ." Robinson on Patents, Vol. III, Sec. § 873 (1890). Emphasis added.

The Constitutional grant is of one power to Congress to set up a system to promote the arts solely by the means of securing to "inventors" rights in their "discoveries," there being no Constitutional expression evidencing cognizance of a standard of novelty or patentability. Neither the word "novelty" nor "standard of patentability" or its equivalent, is found in the Constitution. Clearly at the time of Constitutional drafting, every producer of a new gadget was within the connotations of "inventors." But the Supreme Court now writes that "The patent standard is basically constitutional" and construes that standard to be a high, difficult-to-obtain one.[22]

Since the Constitution reserved to the states *all authority not granted to Congress,* the protection of lower-standard inventions that fail to meet the Constitutional standard of protection for "inventors", cannot be preempted.

The antiprotectionist theme cannot either in logic or law have it both ways, that the Constitution limits patents to the very few dramatic technical breakthroughs while a statute pursuant to the Constitution preempts state action on all technology of lesser stature.

. . .

If the patent statute preempts, as alleged, all right to preclude the use of information, it preempts the state police power as well. It preempts the city's right to prevent manufacture of fireworks in the proximity of schools, for the few who would be involved in the manufacture are by the patent-law-preemption theory guaranteed that they cannot be precluded from using the public domain technology on fireworks manufacture by any other than the patent law.

Perhaps more pointed: If the patent law preempts all other social policy on rights to exclude, and thereby guarantees the right to use subject matter not covered by valid patent, it guarantees the right to sell toxic drugs covered by expired patents, irrespective of state drug regulations for its public's safety.

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[22] Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

The consideration of this ridiculous extreme forces the conclusion that preemption as a theory, forceably reaches too far, hence must fail.

There is no conflict between a statutory extension of common law protection and the common law protection, no conflict between securing a right to preclude others for the social purpose of the patent system, and leaving untouched the common law right to preclude others for either the same social purpose (promoting the arts) or a different social purpose (preservation of private good faith in business dealings), both of which seem to be inherent roles of the trade secret law.

It would seem that if any one of the drafters of our many patent acts since the first one in 1790, had wanted to terminate trade secret rights after one year's commercial use, he might easily have so recited in the same paragraph where he cut off the right to file for a patent after one year's commercial use. But this, of course, was not done by the statute drafters. Contrast the copyright statute, 17 U.S.C. § 2, where the statutory drafter wrote on and considered the scope of the preempted and non-preempted territory—a clause for which the patent statute has no parallel.

The present patent law is the Patent Act of 1952, Title 35 U.S.C., the legislative history of which is peculiarly well recorded. And since that particular writing is the thing now alleged to preempt, the legislative history of that writing is of peculiar interest.

But before that history can have its full meaning, it is necessary to understand the stage of the law as of the time of drafting of the 1952 Code.

C. State Trade Secret Law Development

State courts failed to find either evil or conflict with the patent law, in the act of A contracting with B, "I'll tell you what I know, if you'll pay X dollars and keep the secret," so they enforced such contracts. They evolved a body of case law in most states. The state case law has always been essentially uniform in its view that obligations of confidence are enforceable in court—this even though the legal theories seemed not always the same.

Courts spoke sometimes in terms of property or quasi-property, sometimes not so much of property as of the tort of breach of confidence, sometimes of contracts and quasi-contracts.

But the gravamen of the cause remained always the enforcement of private good faith.

The Restatement of Torts in 1939 developed its expression, § 757, protective of trade secrets and confidential information. In Comment (a) to § 757 the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

The Restatement of Restitution (1937) provides in its § 136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

The Restatement of Trusts, 2nd (1959), provides in § 82(e), simply: "A trade secret can be held in trust."

So stood the uniform state common law of trade secrets as of the drafting of the 1952 Patent Act.

There came a time after *Sears* and *Compco* [23] when trade secret pirates were operating with such vigor that twenty-one states enacted criminal laws making it a crime wrongfully to appropriate a trade secret.[24]

The parallel to the sudden bloom of phonograph record and tape piracy after *Sears* and *Compco* which brought about state and federal legislative acts directed to that specific piracy, cannot escape notice. See *Goldstein v. California*, — U.S. —, 178 USPQ 129 (1973).

[23] Sears, Roebuck & Co. v. Stiffel Company, 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

[24] Ark. Stat. Ann. §§ 41-3949 to 3951 (1967); Cal. Penal Code § 499c (West 1970); Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967); Ga. Crim. Code § 26-1809 (1968); Ill. Rev. Stat. Ch. 38 § 15-1 to -9, § 16-1 (1965); Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969); Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967); Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967); Mich. Compl. Laws §§ 752.771 to .773 (1968); Minn. Stat. Ann. § 609.52 (1967); Neb. Rev. Stat. Ch. 28, §§ 548.01 to .03 (1965); N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967); N.J. Stat. Ann. §§ 2A: 119-5.1 to -5.5 (1965); N.M. Stat. Ann. § 40 A-16-23 (1967); N.Y. Penal Code § 155.00(6), 155.30 (3), 165.07 (McKinney 1967); N.C. Gen. Stat. § 14-75.1 (1967); Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967); Okla. Stat. Tit. 21, § 1732 (1968); Pa. Stat. Tit. 18, § 4899.2 (1965); Tenn. Code Ann. §§ 21-4328 to 4240 (1967); Wis. Stat. Ann. § 943.205 (1965).

D. Congressional Law on Trade Secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, . . . and other property or rights by purchase, license, lease. . . ." This statute is without regard to whether the secret processes have been in use for more than one year. 42 U.S.C. § 1857b-1 (b)(4); 16 U.S.C. § 778e(e); 30 U.S.C. §322(b).

Congress also enacted Internal Revenue Code, 26 U.S.C. §§ 861(a)(4) and 872(a)(4) dealing with taxation of royalties for the licensed use of secret processes and formulas—relying upon the then law of trade secrets that did not terminate the license after one year.

Congress has passed a multitude of other enactments, in reliance upon the established trade secret law and without purporting to change it.[25]

E. Supreme Court Law on Trade Secrets

The first presentation to the United States Supreme Court of federal patent law preemption of state powers over progress of

[25] See for example, the Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. § 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. § 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. § 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. § 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. § 331(j) prohibiting any person from using or disclosing information concerning methods or processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. § 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 1160(f)(2) providing that no person shall be required to divulge trade secrets at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. § 263i(3) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. § 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. § 1857f-6c(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. § 122 providing for the preservation of applications for patent in secrecy until the patient issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

the useful arts and/or over inventions, was in *Gibbons v. Ogden*, 22 U.S. 1 (1824) where the New York state patent on the steamboat was before the Court. See page 32 supra.

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. *Fowle v. Park*, 131 U.S. 88 (1889).

In *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236, 250-51 (1905), Mr. Justice Holmes said:

> "In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It *stands like a trade secret*. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's [citation]. *The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself*, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." (Emphasis added).

The Supreme Court in 1911 stated:

> "A secret process may be the subject of confidential communication and of sale or license to use. . . ." Dictum in *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U.S. 373, 402 (1911).

The Supreme Court again sustained trade secret protection in *DuPont Powder Co. v. Masland*, 244 U.S. 100 (1917).

In 1929, the Supreme Court held:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, *both matters independent of the patent law*, and that the subject matter of Oppenheimer's claim *was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.* [citations] *Oppenheimer's [trade secret] right was independent of . . . the patent law, . . .*" *Becher v. Contoure Laboratories, Inc., et al*, 279 U.S. 388, 391, 49 S. Ct. 356, 357 (Emphasis added).

Then in 1933 we find the Supreme Court again agreeing in *U.S. v. Dubilier*, 289 U.S. 178, 53 S. Ct. 554 at 557 (1933), that:

> "He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:

> "In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

In the famous and oft-followed *INS v. AP* case, 248 U.S. 215 (1918), the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a "misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

All that law was Supreme Court law prior to *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938), when there was a federal common law. When *Erie* terminated that law, those opinions nevertheless were followed in the state courts.

Never in any case where trade secret law and industry practice was briefed to the Court, has the Supreme Court intimated any retreat from the law so announced.

The *Kewanee* opinion cites *Grant et al v. Raymond*, 31 U.S. (6 Pet.) 218 (1832) as though it infers something inconsistent with the above; but not so. The issue in *Grant* was the validity of the reissued patent when the patent owner had first obtained a patent containing a defective disclosure, had surrendered that patent and obtained another with a corrected specification. In approving the reissue patent procedure, the Court seems to have written in context of an assumed right of the inventor not to seek a patent at all.

The *Kewanee* opinion also quotes from *Kendall v. Winsor*, 62 U.S. 322 (1859), dictum expressions suggested to connote forfeiture of trade secret rights if a patent were not promptly sought. But suit there was on a patent, not on trade secret rights. The issue there was not loss of trade secret rights, but loss of the right to seek a patent by commercial exploitation of the invention for a long time before filing for the patent—and the court sustained the patent over the there-occurring delay. There being no trade secret issue before the court, no evidence of R & D economics before the court, and so far as appears no briefs directed to the breach of confidence theme, the case is hardly a proper authority for any factual findings about impeding prog-

ress through one inventor's keeping of his own secret, all others being free and unrestrained.

Supreme Court law, *in trade secret cases*, has *always* supported trade secret law as not preempted by patent law.

F. Federal Courts of Appeal on Trade Secrets

The Courts of Appeal, following the lead of the Supreme Court and of state courts since *Erie v. Tompkins*, have sustained trade secrets in numerous cases ranging over the circuits. The *Kewanee* opinion acknowledged four such opinions from four different circuits since *Sears* and *Compco* which conflict with *Kewanee*.[26]

G. The 1952 Patent Act

In 1950–1952, the gestation period of the Patent Act of 1952, present Title 35 U.S. Code, the nonpreemption of trade secret law stood second to no other rule of law in the firmness of its then establishment as a rule of law of our entire nation, second to no other in the sheer mass of contracts and commercial practice built on a rule of law.

That Act was written perhaps by four, but primarily by two men. The Honorable Giles Rich, now judge on the Court of Customs and Patent Appeals but then one of the National Council of Patent Law Association's two-man drafting committee for the patent law revision effort; and the Honorable Pasquale J. Federico, Examiner-in-Chief of the United States Patent Office and also chief technical advisor to both the House and Senate subcommittees having jurisdiction over the patent law codification. Mr. Federico personally wrote the entirety of the first draft of what became the Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into that Act.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, Mr. Federico wrote a comprehensive "Commentary on the New Patent Act" which was published by West Publishing Company as a foreword to its

[26] Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. denied 383 U.S. 934 (1966), rehearing denied 384 U.S. 914 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970) cert. denied 402 U.S. 904 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971).

original publication of the new Title 35, United States Code Annotated.

As a result of deep involvement in all phases of the revisions after Mr. Federico's first draft, and his personal drafting of several sections of what became the new law, Judge Rich was asked to speak at the First Annual Institute on Patent Law, of the Southwestern Legal Foundation, Dallas, Texas, March 21–22, 1963, on "Congressional Intent—Or, Who Wrote the Patent Act of 1952?" His paper has been reproduced in "Seminars for Newly Appointed United States District Judges Conducted by The Federal Judicial Center," 1970 and 1971.

From both writings it is clear that the central theme of the 1952 Patent Act, was codification with only relatively "noncontroversial" changes. Nothing recorded anywhere that this author has been able to find, suggests any cognizance by any of the drafters of the Act, or by any of the members of the committees of Congress, or by any of the members of Congress, that they were in fact changing thoroughly established trade secret law upon which billions of dollars of business practice was built—an assuredly controversial change.

Later, in his capacity as a judge, Judge Rich wrote again what he, an author of the Patent Act believed:

> "Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in terms of right to exclude."
> Opinion by the Honorable Giles Rich in *Mine Safety Applicances Co. v. Electric Storage Battery Co.*, 405 F.2d 901, 902 n. 2 (CCPA 1969).

. . . .

Present Title 35, Section 101 reads in part:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, *may* obtain a *patent* therefor." (Emphasis added)

There is no language of taking from the inventor any rights if he fails to apply for a patent. If intended, it would have been easy to write *Kewanee's* Section X99, cutting off trade secret rights after one year into perhaps the same patent statute paragraph as the one cutting off patent rights after one year of commercial use.

Recall that the Constitutional authority is limited to inventors. Congress has no constitutional authority as to noninventors, who collect trade secrets from, shall we say, spies in industrial plants in foreign countries. Are spies in foreign plants who are outside Congress's patent law authority, to be held not preempted while U.S. inventors are preempted, the statute saying nothing about taking rights from either of them?

Did either the statute drafters or the Sixth Circuit consider such anomalies when writing their respective law?

It is clear beyond peradventure of doubt, that the consciousness of none of the legislative participants involved in the Patent Act now held to preempt with its provisions about one year grace period to file, had any cognizance of the thing *Kewanee* says they did.

No single brain was ever cognizant of what the Sixth Circuit now says was being done.

What a frightful system of government that permits any law concerning billion dollar commercial impact, to be made by "policies" alleged to be found in a statutory non-expression, without any single brain being cognizant of the alleged "policies" when drafting or enacting the statutory non-expression.

VIII. "Legislative" History of Preemption

It follows from the foregoing that the *Kewanee* rule is its own legislation. And like all legislation it has its own "legislative history," a history that is found in a series of *non*trade secret cases.

Accepting the *Gibbons v. Ogden* refusal to adopt patent law preemption in context of a recitation of 40 pages of argument on it, as a denial, it becomes fair to say that to this author's knowledge the original conception between patent law and something it might preempt was in *Singer v. June*.[27] Using headnote paraphrases, the court there held: Where during the life of a monopoly created by a patent, the trade name has become the identifying and generic name of the patented invention, this name passes to the public with the cessation of the monopoly created by the patent.

The 1896 mating of patents and trademarks in *Singer* was an

[27] Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).

unfortunate error that for decades produced no offspring. Preemption did not timely follow from this mating.

The nonpreemption by the statutory copyright law of both the common law copyright and the law of unfair competition as applied to writings, seemed established in *INS v. AP*;[28] and the nonpreemption by the statutory patent law of the unfair competition law as applied to trade secret law seemed established by such as *Becher* and *Dubilier*,[29] all Supreme Court cases.

But after a forty year gestation period, *Singer* begot *Kellogg*[30] which cited *Singer*, and by divided court held as paraphrased in West's headnote 3:

> "Where 'Shredded Wheat' was the general designation of patented product during life of patents covering product and process of making it, the right to make the product as it was made during the patent period, and also the right to apply to it the name by which it had become known, passed to the public on expiration of the basic patent."

The court repetitively spoke in terms of "dedication" by expiration of the patents. But no patent law language speaks either in terms of "dedication" or of trademarks, much less in terms of trademarks being dedicated. And there are tremendous practical and legal differences between (a) termination of a patent right to exclude copying and use, and (b) grant to all members of the public by "dedication", of an affirmative right to copy and use a trademark. Apples and bananas!

While the judgment-for-defendant result was correct under the trademark law, the admixture of expired patent rights to quell trademark rights reads like Alice in Wonderland and has begot much mischief by those who speak the same erroneous expression in other fact situations as the unthinking parrot repeats what it heard.

We need to review again the relationship between several examples of rights to preclude, the better to understand that "expiration" of a right to preclude is not "dedication" of a right to copy and use.

Frequently, two patents cover the same product; one patent

[28] International News Service v. Associated Press, 248 U.S. 215 (1918).

[29] Becher v. Contoure Laboratories, Inc., 279 U.S. 388, 49 S. Ct. 356 (1929) and U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 53 S. Ct. 554 (1933), discussed at p. 32 hereof.

[30] Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 59 S. Ct. 109 (1938).

right to preclude others "dominates" another patent which may relate to a subcombination or an improvement. Expiration of the dominated patent terminates *that* patentee's right to preclude; but it is uniformly held that this expiration does not grant anybody the right to use the invention of the expired patent when so to do would infringe the dominating patent. I.E., the expiration does not put anything into the public domain; it merely terminates a right to keep something out of it.

. . .

Consider a second example. Suppose the patent is on a food or drug and expires. Clearly that expiration of the patent right to preclude does not put the food or drug forcibly into the public domain by dedicating to all the right to manufacture and sell—not if food and drug law prohibits its manufacture or sale. There is no "conflict" between expiration of the patent right to preclude, and a continuation of the food and drug regulation policies which may preclude.

. . .

Suppose next that a design patent (fourteen years) is available on an artistic design of a lamp base, and a copyright (28 years) issues on the sculpture which is that same design. In *Mazer v. Stein* [31] the Court discussed at some length the different scope of copyright protection (only against copying) and patent protection (against use of the same concept whether copied or independently developed) and specifically held that the availability of patent protection did not preempt copyright protection.

In ruling that appropriateness for patent rendered trade secret preempted by the patent protection, the *Kewanee* opinion shows no cognizance of the modern and closely parallel ruling by the Supreme Court in *Mazer*, that appropriateness for patent does not preempt copyright protection. On social policy (as distinguished from federal structure of government) the two concepts seem indistinguishable; on social policy grounds, *Mazer* should control *Kewanee*.

. . .

Returning now to the example involved in *Singer* and *Kellogg*: A trademark is a word or design the significant meaning of which

[31] 347 U.S. 201, 74 S. Ct. 460 (1954).

is *brand*. A trademark indicates a single source of a product, a single brand of that product.

The trademark right is the right of the owner of the mark to preclude the type of competitive use of the word or design (i.e. the trademark) which would cause the public to be confused as to the source of the product, whereby the purchaser in seeking one known quality would be deceived into getting another. The trademark owner's right is derived vicariously from the public right to not be confused. It has no concern for the patent law's concerns, inventorship, progress of the arts, inherent property in one's own creation, monopolies on products. (The same product can be sold under different trademarks and normally is.)

But if a trademark word becomes generic, i.e., if the public through the proprietor's misuse of the mark comes to use the word no longer to suggest customer's preferred manufacturer or brand but rather to describe the type of product he wants, then the public is no longer confused-as-to-source by competitive use of the word; it ceases to function as a mark. If "escalator" means "moving stairway," *any* moving stairway and not just Otis's *brand* of moving stairway, it no longer is a de facto mark and its former owner loses all legal rights in it.

But the loss of the trademark right is independent of the patent right, both in social purpose and in point of time. The right in a trademark (e.g., Ford) may last 70 years without monopolizing the product, or the right may terminate upon the word going generic (escalator, cellophane, aspirin) perchance in five years—and the patent law could not care less.

In both *Singer* and *Kellogg* the several significant patents in each case expired at different times; no one of their expirations effected the loss of the trademark rights. In reality it was the public's lack of familiarity with any other descriptive or generic word but the former mark, now used descriptively by the public, that terminated the trademark right. The patents were handy and got blamed for the loss of the trademark rights by association.

It is significant to note that in both *Singer* and *Kellogg*, not only was the reference to patents error, it was dictum; for the judgment was properly founded upon the mark going generic and it was not necessary to reach patent law dedication. Dictum error building on dictum error.

Soon after *Kellogg* came the "assignor-estoppel" case. *Scott*

Paper.[32] A philosophy against restraints on trade seems in 1945 to have dominated the thinking of some members of the Court which speaks now not infrequently in absolute terms of monopoly when only the mildest restraints were involved.

The issue in *Scott Paper* was whether the assignor of a patent who got valuable consideration for his assignment, when charged with infringement, should be permitted to construe the scope of the assigned patent down to zero valid scope (in effect, invalid) under the guise of arguing noninfringement. Could he totally nullify the patent he sold or should this one party, the assignor, be estopped by his own prior assignment-for-value from such action? The prior art relied upon by the assignor-infringer was a prior expired patent.

Only a few years before the Court had written in *Kellogg* about "dedication" upon expiration of a patent, citing *Singer*. So now, citing *Kellogg* and *Singer* the Court again got hold of this "dedication" word and used it to implement its no-restraint-of-trade philosophy. Said the majority of six justices: The expired patent dedicated its subject matter to the public, including the assignor-infringer of the patent in suit through which the public could enjoy the benefits of the dedication.

Said the six-justice majority of the Court:

> "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power." [32.1]

It shocks and astonishes, to see our highest court so callous as to give the back of its hand with a cavalier wave, to private good faith. No wonder we now have Air Force Lieutenants falsifying records on Cambodia bombings; White House officials condoning break-ins for wire taps; etc. Who, if not the Supreme Court, should be a leader in encouraging high regard and priority position for private good faith?

Over separate dissents by such as Mr. Justice Reed and Frankfurter, the Court found "dedication" in the patent law, to justify its refusal to permit one party among thousands of potential competitors to be estopped from disavowing his own contract, hence from use of the teaching of one expired patent. Antitrust

[32] Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 66 S. Ct. 101 (1945).
[32.1] Id. at 257.

is not the sole public policy, not the one true god before which all other public policy should bow down.

But the stage was fully set in *Scott Paper*, for *Sears* and *Compco* [33] where the design patents on ornamental designs had been held invalid, and the lower courts had granted judgment for plaintiff on ground that copying the designs was unfair competition.

It seems clear that if the courts in *Sears* and *Compco* had applied the proper unfair competition and product simulation law which is characterized in *Pagliero et al v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952), the Court's judgment-for-defendant result which seems so necessary to reconciling the intellectual property laws into a single coherent fabric, would have obtained without the mischief of patent law preemption.

The starting point of what is fair and unfair common law of product simulation is a right to copy and use published works learned of without an obligation of confidence. To that right there are many exceptions of different social purpose, term and scope, e.g., the patent right, the copyright, the anti-palming-off unfair competition right, the food and drug regulation right, the trademark right, the anti-breach-of-confidence right, etc.; but none of the exceptions fit *Wallace's* situation.

Wallace's biggest argument was that it was the originator and market-developer of four china designs and that that originator-developer fact alone gave it rights, particularly since the designs had acquired trademark "secondary meaning," i.e., the public identified the designs with Wallace as the source. But the design was of interest to the purchaser for its design function and had been published by Wallace; and the trademark right (being not designed to monopolize or restrain trade in the *product* the public wanted, but only to assure lack of public confusion as to *source* of the product) could not be applied to the product feature which the public wanted to buy as product feature. The social purpose of trademark law did not reach that far.

So the common law of trademarks and unfair competition (under *Erie*, common law is state law), adopted into the Lanham Trademark Act § 44(h), 15 U.S.C.A. § 1126(h), the Paris Convention (53 Stat. 1748) and Pan American Convention (46

[33] Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

Stat. 2907), did not in the Ninth Circuit's view reach far enough to give *Wallace* the right it claimed. No patent law issue was involved.

In *Sears* and *Compco*, where the above *Wallace China* unfair competition law so perfectly fit to dictate the socially desired result, the Supreme Court got its hand on the wrong handle. The Supreme Court took the unrefined, indescriminate, bull-in-china-closet approach, that since the patent law concerned itself in some manner with mechanical configurations (if and when they are new and nonobvious inventions by inventors), the patent law inherently preempts state unfair competition law power over the light fixture designs. Of course, citing *Kellogg* and *Singer*, among others.

By the measure of *Anderson's Black Rock* [34] the inventions in *Sears* and *Compco* failed to meet what *Anderson's* called a Constitutional standard of patentability, one which for this purpose we will assume exists. (Contrast pg 47 hereof).

In view of the reservation to the states of all powers not granted to the Congress, if the inventions were not patentable under the Constitution, no state law applicable thereto can have been preempted by the Constitution. For there is no hiatus, no void, in the powers: What power is Constitutionally *not* in Congress, *is* in the states.

Yet the court wrote in *Compco* this characterization of its holding in both *Sears* and *Compco:*

> "Today we have held in *Sears* . . . that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article." [34.1]

This total expression of preemption, irrespective of whether the inventions meet what the Court calls a Constitutional requirement for patentability, is patently wrong in view of the reservation of all nondelegated powers to the states.

This expression is one of preemption irrespective of breach of confidence (which was not before the court), irrespective of whether the article was made by an inventor or a noninventor (Congress is empowered only to secure rights to inventors and

[34] Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

[34.1] 376 U.S. at 237.

may not dabble in rewards to noninventors as *Stiffel* and *Day-Brite* were held not to be).

—Error built upon prior dictum error, and not at all necessary since the same result obtains under quite sound *Wallace China* unfair competition law.

. . . .

Whether by coincidence or as a result of *Sears* and *Compco* and their arguable partial overrule of *INS*, *Becher* and *Dubilier*,[35] *Sears* and *Compco* were followed by a bloom of phono-record piracy which resulted in many state statutes rendering phono-record or tape piracy a crime and an amendment to the federal copyright act which rendered phono-record or tape piracy an act of copyright infringement—both directed to legal remedies for the same wrong which prior to *Sears* and *Compco* were illegal under *INS*.

Similarly, theft of trade secrets took such a turn that 21 states passed laws rendering theft of trade secrets a crime [36] and others construed their existing law to the same effect. The fact that *Sears-Compco* language spoke of preemption in near-total terms was in those acts disregarded because trade secrets were not before the court nor briefed to the court in *Sears* or *Compco*.

Then the licensee-estoppel case, *Lear, Inc. v. Adkins* [37]: a suit seeking to collect royalties due under a contract of license of an invention and patent thereon; a defense that the subject patent is invalid, hence no royalties are due in spite of the license; the issue briefed to the Supreme Court being whether the licensee was estopped by virtue of being a licensee from contesting the validity.

In spite of an acknowledged 100 years of prior licensee-estoppel law, the Court (again pursuing its *Scott Paper* theme against even de minimis restraints on trade in the name of patent property) decided that the licensee Lear was no more estopped to contest patent validity than the Marcalus assignor to Scott Paper.[37.1] Private good faith still seemed to the Court to be relatively unimportant by comparison with getting every last *one*

[35] International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Contoure Laboratories Inc., 279 U.S. 388 (1929); U.S. v. Dubilier Condenser Corp., 289 U.S. 178 (1933).

[36] See note 24, supra.

[37] 395 U.S. 653 (1969). See Arnold and Goldstein, "Life Under *Lear*," 48 Tex. L. Rev. 1235 (1970).

[37.1] 395 U.S. at 673.

(of 210 million potential competitors) freed of estoppels against competition.

Mr. Justice Black (who had written *Sears* and *Compco*) wrote for himself, and Justices Douglas and Warren, a special opinion expressing this time, total patent law preemption of the right to contract for royalties on unpatentable inventions. Justice Black's fixation on "monopoly" concept is peculiar. Said he, as premise in support of his view, inter alia:

> "No state has a right *to authorize any kind of monopoly* on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws." [37.2]

And he goes on to include within that rule, "private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments," saying these "run counter to the plan of our patent laws." [37.3]

But one or two people's contract to keep a secret is jolly well no "monopoly" when dozens, hundreds or perchance thousands of other businesses are free to develop and compete. And forcing them to pay for or develop new technology will better serve society through progress in the arts than sponsoring their non-development free-loading plagiarism.

The majority of the Court declined Mr. Justice Black's invitation, recognized that voiding of all contracts for disclosure of information was a "difficult" question, invited courts [why not legislative bodies?] to "fully focused inquiry" on the point, and remanded it. After all, the point had not been decided by the Court below, was not mentioned in the petition for writ of certiorari, was not really briefed to the court.

It is horrifying to contemplate a system of government which would permit such economically important new law to be made in a case where the public was not advised of the pending development and the parties' attention was totally focused on other issues which at the time were the fundamental issues at hand.

. . . .

The Supreme Court has recently considered whether the copyright law really did preempt the state criminal laws passed fol-

[37.2] Id. at 677 (Black, J, dissenting)
[37.3] Id.

lowing *Sears* and *Compco* to stop the multimillion dollar losses of the legitimate phonograph record companies from tape and record pirates.

On June 18, 1973 the Supreme Court in *Goldstein v. California*,[38] by a five to four divided court, held that the copyright law did not preempt California record piracy law. But at best the opinion is surely a mixed bag for the trade secret proprietor and licensor.

At the outset recall a fundamental difference between the copyright and the patent statute. The patent statute has no reference to common law and equity rights. But Section 2 of the Copyright Act, Title 17 U.S.C. provides:

> "Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor."

The right at common law and equity, to be the first to publish, is part of Congress's statutory system with respect to authors. Until *Kewanee* the courts uniformly held equity and common law to be part of the system also, with respect to inventors.

The positive statement of § 2 that certain common law rights are preserved, seems to carry a negative implication that other common law rights, if any, are not preserved. But since the records and tapes in *Goldstein* had clearly been published, the role of 17 U.S.C. § 2, as applied to preemption, did not get into the *Goldstein* opinion.

The *Goldstein* opinion develops for some pages the issue of constitutional (as distinguished from statutory) preemption of state "power to grant to authors 'the exclusive Right to their respective Writings'." The conclusion: No constitutional preemption of state grant of exclusive right to authors in their writings, and this irrespective of the duration of the state's grant.[38.1] That portion of the opinion would read equally well, word for word, to the conclusion that the Constitution does not preempt state patents or trade secret protection of unlimited term.

But what of the federal copyright statute? The Court digs deep

[38] — U.S. —, 93 S. Ct. 2303, 178 USPQ 129 (1973).
[38.1] 178 USPQ at 139.

into legislative intent of the copyright statute, noting: The Congress pointedly waited on the Supreme Court's *White-Smith* [39] opinion which held piano rolls were not "copies" within the meaning of the then copyright act; Congress then determined that the copyright statutes should be amended to insure "that *composers* of original musical works received adequate protection to encourage further artistic and creative effort," and passed § 1(e) that records and piano rolls were to be considered as "copies" of the original composition and could not be manufactured unless payment was made

> "to the proprietor of the *composition* copyright. The section of the House Report cited by petitioners was intended only to establish the limits of the *composer's* right; [no mention of performer's or record manufacturer's rights] . . . Nowhere does the report indicate . . . that Congress intended records as *renderings* of original artistic *performance* to be free from state control."[39.1] (emphasis modified)

Said the court further,

> "recordings qualified as 'writings' within the meaning of the Constitution, but had not previously [to the 1971 Act of Congress [40]] been protected under the federal copyright statute [except that the composer was entitled by the 1909 Act's § 1(e) to his compensation]." [40.1]

Hence, *Sears* and *Compco* do not apply because the federal copyright statute did not preempt state law protection of recordings fixed prior to the February 15, 1972 effective date of the 1971 Act (which subjected records to copyright protection).[40]

It is important to note that briefs to the Court and the Court seemed to presume without analysis of the point, that the copyright statute insofar as it reaches subject matter (composer's rights), is something more than a statutory right to exclude which expires without affecting any right to exclude that exists by virtue of any other social purpose or law. The premise was that the copyright law is an affirmative statutory putting-of-something-into-the-public-domain into the teeth of any state

[39] White-Smith Music Publishing Co. v. Appollo Co., 209 U.S. 1 (1908).

[39.1] Goldstein, 178 USPQ at 137.

[40] Pub. L. 92-140, 85 Stat. 391, 53. Query: Did the 1971 federal copyright coverage of recordings then preempt the California statute, so that as of the date of the Supreme Court's Goldstein decision of nonpreemption, the California state statute had by then been preempted? It seems: Yes!

[40.1] Goldstein, 178 USPQ at 138.

law of any kind that relates to composer rights. While the pragmatics of tactical reality compelled the parties not to challenge this premise, I find it difficult to see why the Supreme Court did not acknowledge that such a distinction exists to be considered in its opinions.

The copyright law relationship to recordings seems to be all that was significantly briefed to the Court. Had the Court stopped with its ruling on that point, the nonapplication of *Sears* and *Compco* to innovations by importers and other noninventors and developers whose developments did not measure up to statutory standards of patentability, would seem clearly to be established by *Goldstein*. For patent statute drafters not only did not, they constitutionally can not, treat of works by other than "inventors."

If the extent of copyright law preemption can turn upon the difference between the writings of composers (preempted) and of the writings in a phono-record of a performer (not preempted), then patent law preemption ought also turn on the difference between the § 103 patentable work of inventors (as to which the patent statute speaks) and the nonpatentable works and noninventors' works (as to which the statute merely says no *federal* patent is obtainable, *without* saying whether the subject is or is not in the public domain).

But courts, like all the rest of us, have to do some things which seem expedient. And this court appears to have felt constrained not to overturn *Sears* and *Compco*.

Recall here that *Sears-Compco* were both cases on competitive simulation of published and marketed lighting fixture products whose published and marketed mechanical configurations had been copied without breach of confidence. The *Goldstein* court did not study Congressional legislative intent on "mechanical configurations" because they were not before the court and were not really briefed to the court. But the court did recall that the question in *Sears-Compco* "was whether a state could, under principles of state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent." [40.2]

[40.2] Id.

The Court then quoted from *Sears* with apparent approval, and went on:

> "In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, *but which configurations it wished to remain free.*" [40.3] (emphasis added)

The Congress only considered which it wished to remain free *of federal patents*, NOT which it wished to remain free of common law, equity breach of confidence, food and drug, and other restraints. But the Court seems to miss that vital distinction and continues on:

> "The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way to the Supremacy Clause of the Constitution." [40.4]

"The careful balance which Congress had drawn," seems to this student of legislative history of the Patent Act, to be the purest fiction. No "care" on this point, or "balance" is shown as to equity, common law, trust and confidence, and any patent law purpose. But cliches and phrases have a power in human thought, independent of their truth, and when spoken without analysis or understanding, they seem often to be the more powerful. When they are placed as a subordinate thought, they are in the foundation-stone role, buried and likely not to be closely examined as will be the structure built upon them—and so they may there have even greater potential for mischief among well meaning men.

. . . . .

So from case to case, *Singer, Kellogg, Scott, Sears, Compco, Lear*, and now *Goldstein*, we see a group of cases wherein no trade secret law was involved, commence with dictum error of preemption, then build preemption in case after case, until the Supreme Court majority itself, in *Goldstein* purports now to

[40.3] Id.
[40.4] Id.

have specifically considered and affirmed patent law preemption of constitutionally unpatentable developments of *non*inventors because Congressional legislative intent reached, allegedly, all "mechanical configurations."

If there is really any doubt about whether *Kewanee* preempted only § 103 patentable subject matter, or all § 101 technology, it would seem that *Goldstein's* dictum on "mechanical configurations" clarifies the point and assures its being read to all § 101 technology whether or not patentably nonobvious.

. . .

The current chapter on preemption legislative history takes the form of Section 301 in the Nixon Administration's proposed "Patent Reform and Modernization Act of 1973." There we find:

> "301 Non-preemption
>
> (a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.
>
> (b) Nothing in subsection (a) shall authorize any state to grant to any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

Clearly subsection (a) does not "grant" so subsection (b) should not be necessary. But by the purported denial of authority of a state to grant, there arises an implication of some undefined sort of preemption with respect to "ideas in the public domain or in general circulation." Such form is darn poor draftsmanship. Such a substance is not constitutionally authorized by the patent clause of the constitution, but is something the Congress perhaps can now do under the commerce clause. More important such a substance is poor structure for substantive law.

Further, the statement of no preemption of trade secret law without reference to trademarks and unfair competition law, is a poor way to connote something like a sub silento pat on the back of *Sears* and *Compco* and reprimand of *INS v. AP*, supra. Where does it leave *Singer* and *Kellogg's* patent law preemption of trademarks which may be federally registered? Statutes should be positive, should not speak only by inuendo on important issues.

Clearly the entirety of this proposed act is an example of the perverbial camel, well known to be a horse designed by a com-

mittee; for this bill has odd bumps and inelegancies scattered all through it as a result of compromises by administration drafters who could not agree even on fundamentals.

If the concept of the last Chapter of this paper is sound, then the Section 301 should be a general expression of nonpreemption, period.

. . .

I believe in judicial restraint in favor of the legislative process—which hopefully will improve the camel's lines before releasing him to the public.

I believe that "Shadows Don't Fight."

With short shadows on each of those two faiths, this paper will close.

IX. The Legislative Process vs. The Judicial Process of New Law Making

It is grossly unfair to criticize courts for "legislating." The difference between legislating and common law making is a gradation with no natural boundaries and few guideposts to separate the one from the other. In truth, legislative bodies inherently make premise findings of fact, judicially, when they legislate; and courts legislate when they construe Congressional and Constitutional writings which inevitably include language readable on situations the authors did not contemplate or decide-an-issue about.

But there are guideposts as to where the judiciary should properly decline to act in favor of the legislature and the Supreme Court has often written of those guideposts and it has followed them in the patent law area as well as others.

The judicial process is inherently a relatively ivory-towered process. Examples: The judiciary cannot send investigators into an industry to study its economics and practices and bring back studies. By contrast, the Congress has in very recent years published for criticism dozens of studies of different facets of its function as well as drafts of proposed patent acts.

The judiciary often can know nothing of international impact of its rulings; the Congress gets input from the Department of Commerce and the international companies.

The judiciary cannot publish a draft rule of law, have it cross-

examined by those who would be effected, hold public hearings to hear their comments on its error or ambiguities, then revise the rule before its promulgation with inadvertent ambiguities visits tremendous mischief upon those who know not how to apply it to their situations.

In areas such as the social role of R & D and its real life economics, the judiciary does not have ready access to what Mr. Justice Frankfurter called "the realities of law in action," and rather must decide upon the basis of its relatively ivory-towered and sometimes sterile generalizations and speculations.

It is against those background realities that the Supreme Court was writing very recently in *Gottschalk*.[41]

> ". . . considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems [and international economic problems?] tendered in the many briefs before us indicate to us that considered action by the Congress is needed." [41.1]

That writing was in a case involving the patentability of a process for operating a computer, which most of us would call a machine, and wherein the act of Congress had already recited that a new process for operating a machine was patentable. 35 U.S.C. § 100(b). But apparently because the Court did not think the Congress had given enough consideration to *computer* machine processes, it held the Benson process to be unpatentable subject matter until Congress could act again more directly to the point.

In a case wherein the government was urging a change in the policy of title to inventions made by employees—philosophically a related issue to the *Kewanee* employees' claims—the Supreme Court stated:

> "The courts ought not to declare any such policy; *its formulation belongs solely to the Congress*. . . . These are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress. *We should not read into the patent law limitations and conditions which the Legislature*

[41] Gottschalk v. Benson and Tabbot, 409 U.S. 63, 93 S. Ct. 253 (1972).
[41.1] Id., 93 S. Ct. at 258.

has not expressed." *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 198, 53 S. Ct. 554, 561 (1933). (emphasis added)

It is clear that the "Legislature has not expressed" *Kewanee's* new Section X99.

The trade secret law, having a history of over a hundred years of uninterrupted coexistence with the patent law, brings to mind the weighty admonition of Chief Judge Cardozo in *Color v. Corn Exchange Bank*, 250 N.Y. 136, 164 N.E. 882 (1928):

"Not lightly [to be] vacated is the verdict of quiescent years."

Here the verdict has stood for over a hundred quiescent years and supports what now is business activity in the billions-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no economic data or industry practice information before it, is inherently presumptuous, yea perchance arrogant, to indulge such devastation to established business practice, as the original creative expression of our perverbial section X99.

Section X99 of Title 35 should be subjected to the scrutiny of the legislative process.

And the Congress has now before it, the Nixon Administration's proposed "Patent Reform and Modernization Act of 1973" with a section 301 which expressly negatives preemption of state trade secret law.

X. Shadows That Fight?

There is a common law right to copy and use—with exceptions.

Each of the exceptions is like a shadow, cast from its own light of social purpose.

Each shadow is of different shape and different life time.

The shadows of copyright, patent, trademark, trade secret, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold, for the same design perhaps for a lamp fixture may be copyrighted, may be patented, may be a trade secret until it is marketed, may be used as a trademark.

But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, scope or term of the patent shadow, or the others.

If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may be no longer confidential so the shadow of trade secret right is withdrawn without affecting the longer lasting patent right.

When the patent expires the patent right to exclude expires but no other right to exclude expires or is suggested in the patent statute to expire. If after the 17th year of a process patent the owner develops a new and cheaper way to practice the same patented process, his right of freedom from theft of his new secret and from breach of trust can continue, out of the social purpose of equity and honesty and independent of patent law social purpose.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: Subject only to the effect of 17 U.S.C. § 2 on published works of authors, each right to exclude expires with the running of its *own* social purpose, with no other right to exclude being affected by it, just as each shadow being taken away may leave the others, one or more, not fighting.

For one day the Supreme Court must find the merit of letting the social purpose of the patent law limit the scope and term of the patent right to exclude, the social purpose of the trademark law limit the term of the trademark right to exclude, the social purpose of the contract and tort law limit the scope and term of the trade secret right to exclude.

Perchance, *Kewanee* now on petition for writ before the Supreme Court will be the vehicle by which we all learn: shadows do not fight.

IN THE

Supreme Court of the United States

OCTOBER TERM 1978

No. 77-1413

JANE ARONSON, *Petitioner*

v.

QUICK POINT PENCIL COMPANY, *Respondent*

MOTION FOR LEAVE TO FILE BRIEF AND ANNEXED BRIEF IN BEHALF OF THE LICENSING EXECUTIVES SOCIETY (U.S.A.), INC., AS *AMICUS CURIAE*

LEONARD B. MACKEY, ESQUIRE
320 Park Avenue
New York, New York 10022

EUGENE L. BERNARD, ESQUIRE
BERNARD & BROWN, P. C.
1700 K Street, Northwest
Washington, D.C. 20006

Counsel for The Licensing Executives Society (U.S.A.), Inc.

PRESS OF BYRON S. ADAMS PRINTING, INC., WASHINGTON, D. C.

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MOTION OF THE LICENSING EXECUTIVES SOCIETY (U.S.A.), INC., FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE*

The Licensing Executives Society (U.S.A.), Inc. ("LES"), respectfully moves this Court for leave to file instanter the accompanying brief in this case as *amicus curiae*. The consent of the attorney for Petitioner has obtained, but the attorney for Respondent has refused to give consent to the filing of a brief by LES. The interest of LES in the issue before the Court transcends the interests of the parties to this action. The position of LES tends to favor Petitioner; the attorney for Respondent was so informed when his consent was sought.

The issue presented to the Court by the petition is whether an express contract providing for the payment of a running royalty as consideration for the relevation of and the right to commercialize a simple device, not patented and not susceptible to trade secret protection once commercialized, should be affected by the patent laws.

LES is a not-for-profit corporation organized under the laws of the State of New York. It consists of over 1500 members in the United States, and an equal number in affiliated foreign societies, all of whom have a significant responsibility for technology development, transfer (licensing), marketing and utilization by the publics in the United States and in foreign countries. The members of LES represent both large and small companies, as well as universities, independent invention development organizations, attorneys and consultants.

The members of LES are involved in licensing technology on a daily basis on behalf of their employers or clients, and most are equally active as licensors and licensees. Their work involves continuing contact with the financing and generation of new technology, with procedures to bring the technology developed to public enjoyment, and with the interrelation between the necessity for technology protection and the ability to find financing for its development. They are persons who buy, sell and direct the protection of billions of dollars worth of technology which is endangered by the

[1] This brief has been authorized by the eighteen-member Board of Trustees of LES.

decision below.[2] They, perhaps more so than any other group, are personally acquainted with the real-world economics of know-how, and the effects of laws and government policies upon know-how development, transfer, marketing and utilization.

It is apparent that the legal issue before the Court has significant public interest implications affecting far more businesses and people than the parties to the case. Members of LES are not the only ones affected, but they represent a significant portion of the affected group.

LES has no business interest in the outcome of the case before the Court, but has a vital interest that the law made in this case is sociologically sound as applied to encouraging and fostering new technology and major investments in research and development of technology and making it available for the enjoyment of the public. LES became aware of the fact that an *amicus curiae* brief was being prepared by the American Patent Law Association ("APLA"), made inquiry as to the substance of that brief, and in the annexed brief, LES advances its own points and adopts the brief of ALPA.

LES and its members nevertheless view with high interest and are necessarily concerned with the possibility that some important aspect of the facts and legal

[2] The available figures are soft. But they convincingly portray the assured fact that confidential know-how information, mostly unpatented know-how wherein the individual elements may not be real secret, but the collation and combination of such elements are secret and of high value, being the result of considerable expenditure of time, effort and expense, is licensed by United States industry at an annual rate of income approximating one billion dollars.

question before this Court might go unconsidered in the briefs and arguments presented by the parties; and wherefore, presents to the Court this earnest motion for leave to file the annexed brief *amicus curiae* instanter.

Respectfully submitted,

LEONARD B. MACKEY, ESQUIRE
320 Park Avenue
New York, New York 10022

EUGENE L. BERNARD, ESQUIRE
BERNARD & BROWN, P. C.
1700 K Street, Northwest
Washington, D.C. 20006

Counsel for The Licensing Executives Society (U.S.A.), Inc.

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BRIEF ON THE BEHALF OF THE LICENSING EXECUTIVES SOCIETY (U.S.A.), INC., AS *AMICUS CURIAE*

INTEREST OF THE AMICUS CURIAE

The Licensing Executives Society (U.S.A.), Inc. ("LES"), is a not-for-profit corporation organized under the laws of the State of New York. It consists of over 1500 members in the United States, and an equal number in affiliated foreign societies, all of whom have a significant responsibility for technology development, transfer (licensing), and marketing to and utilization by the public. The members of LES represent both large and small companies, as well as uni-

versities, independent invention development organizations, attorneys and consultants.

The character of LES and its interest in the facts and question of law presented on petition is explained in its Motion for Leave to File a Brief as *Amicus Curiae*, to which this brief is annexed.

ARGUMENT

I. The Licensing Executives Society (U.S.A.), Inc. Adopts the *Amicus Curiae* Brief of the American Patent Law Association.

The Board of Trustees of The Licensing Executives Society (U.S.A.), Inc. ("LES"), requested and received copies of a draft of the *amicus curiae* brief of the American Patent Law Association ("APLA"). The APLA brief is considered to be consistent with the views of LES. Accordingly, LES adopts and incorporates by reference the brief to be filed in this case by APLA as though the APLA brief were the brief of LES.

II. Additional Argument by the Licensing Executives Society (U.S.A.), Inc.

LES, in addition to adopting the *amicus curiae* brief of the APLA, advances the following comments:

1. The public interest is involved in that the legal capacity of industry and individuals to trade in and contract with respect to technology is of great importance to the basic economics of technology development, transfer and utilization. Technology can range from the simple device (key holder) involved in the matter now before the Court to high technology.

This simple device is one that, unless patented, would become publicly available at the time it is commercialized in that, in view of its simplicity, once seen, it could be easily and readily duplicated; thus once commercialized, it would not be susceptible to trade secret protection.

The contract involving this simple device provided a basis for bringing the device to the marketplace. Otherwise, it might not have been commercialized and thus enjoyed by the public; but, of even greater moment, if the decision of the majority of the court below is applied to high technology (e.g. know-how) licenses of largely unpatented information in accumulated form which remains substantially confidential when commercialized, the decision would have a larger and economically undesirable effect on the technology base of the nation.

2. The parties before the Court bargained at arms length. The character of the technology (the simple device—a key holder) compelled a recognition on the part of the parties that, unless patent protection was obtained, the licensee would not enjoy a preferred position in the marketplace.

The parties contemplated that the device might not be patented in that there was one royalty (5%) if the device were patented, and a lesser royalty (2½%) if it were not patented.

The matter of payment of a royalty is predicated upon the agreement of the parties, a running royalty having been chosen instead of a fully paid-up royalty, i.e. one paid "up front".

3. The matter before the Court is premised solely on contract law since the device was not patented and

not susceptible to trade secret protection once introduced to the public, thus there is no basis for precluding others from making, using or selling it once it is introduced to the public, save for the parties themselves by virtue of the terms of the contract between them.

A patent was not obtained; the patent statute, Title 35, U.S. Code, cannot properly be said to preempt the right of business and citizens to expressly contract as they wish for rights to technology.

The matter before the Court, if anything, is an evaluation of the consideration for the revelation of and right to commercialize the simple device involved in the contract; this evaluation of consideration should be premised on a simple contract thesis, not on a thesis premised on patent or trade secret considerations.

If any express contract for the payment of royalties, directed to nonpatentable subject matter which is not susceptible to trade secret protection once commercialized, should be modified by the hindsight of judicial review, let it be reformed by the principles of equitable reformation; but let it not be said to be preempted by the patent law, the Constitutional basis for which did not concern such subject matter.

CONCLUSION

The issue before the Court is directed to a simple contract involving a running royalty as consideration for the revelation of and right to commercialize a simple device. This device, although patent protection was sought, is not patented and is not susceptible to trade secret protection once commercialized. The parties contemplated that it might not be patented. The consideration to be paid by Respondent was agreed to in arms-

length bargaining and was to be paid irrespective of patent coverage—5 percent if a patent was obtained, $2\frac{1}{2}$ if not. The parties contemplated continuation of the contract irrespective of obtaining patent coverage; as noted, no patent was obtained.

Patent law and the law of enforceability of patent license contracts should not be and are not involved in this instance. If anything, the law of contract reformation based upon principles of equity might be involved. The decision of the majority of the court below, applying patent law, if applied to licensing of largely unpatented, but none-the-less confidential technology, would have a major and economically undesirable effect on the technology base of our nation.

Respectfully submitted,

Leonard B. Mackey, Esquire
320 Park Avenue
New York, New York 10022

Eugene L. Bernard, Esquire
Bernard & Brown, P. C.
1700 K Street, Northwest
Washington, D.C. 20006

Counsel for The Licensing Executives Society (U.S.A.), Inc.

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On Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

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BRIEF FOR ERCON, INC., AS AMICUS CURIAE

EDWARD S. IRONS
RICHARD H. STERN
IRONS & SEARS
1801 K Street, N.W.
Washington, D.C. 20006

Attorneys for Amicus Curiae Ercon, Inc.

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

INDEX

CITATIONS

CITATIONS—Continued

CITATIONS—Continued

CITATIONS—Continued

CITATIONS—Continued

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BRIEF FOR ERCON, INC., AS AMICUS CURIAE

INTEREST OF THE AMICUS CURIAE

Ercon, Inc., is a relatively small research and consulting firm, engaged in several technological fields, including that of electrically conductive plastics (used in electronics and other industries). Ercon was founded in 1967 by a small group of scientists and engineers including its President, John E. Ehrreich. Ercon is vitally interested in the future of licensing in the United States for two reasons: (1) Ercon's entire business is research and consulting, including development of proprietary technology for patent, trade secret, or know-how licensing to others; and (2) since 1969 Ercon has been harassed with very costly trade secret and confidential informa-

tion litigation that has seriously interfered with its competitive operations as a patent licensor and threatens its survival. Ercon believes that its future as a viable business organization (because it is both a licensor and also a potential defendant) depends on the existence of a fair and rational state of the law in the trade secrecy field—one aspect of which is a doctrine of preemption that, when appropriate, is effective to discourage frivolous "trade secret" litigation at an early stage before legal expenses impose excessive burdens on the parties.

In particular, and to be quite specific, Ercon's concern in this regard reflects the legal and other expenses attributable to a trade secret/confidential information suit that a former employer of its president brought against it to deprive Ercon of a patent on a valuable invention made by Ercon employees after Ercon began its own research in the conductive plastic field. The cost of this litigation and the loss of business because of the *in terrorem* effect the suit has had on Ercon's clients and potential clients has nearly brought Ercon to the point of having to close its doors and go out of business. Ercon believes (and has alleged in its pleadings) that the suit is a sham and the reason the former employer sued it for alleged misappropriation of trade secrets was to impose such ruinous litigation costs on it as to eliminate it as a patent licensing competitor.

To be sure, one answer to Ercon's problem (offered in the Brief for the United States as Amicus Curiae, p. 27, n. 13) is to tell it to rely on "the option of enforcing the antitrust laws," rather than merely defensively to resist the trade secret suit. This is a hollow promise, as Ercon learned when it attempted to bring such a suit. Given the uncertain and therefore expensive state of the law after such cases as *Vendo Co.* v. *Lektro-Vend Corp.*, 433 U.S. 623 (1977); the expense of proving a dangerous probability of success in a relevant market,

demanded by such decisions as *Acme Precision Products, Inc.* v. *American Alloys Corp.*, 484 F.2d 1237 (8th Cir. 1973) (a case, incidentally, in which the victim of patent fraud did go out of business rather than pay the expense of trying to prove relevant market); and the enormous expense of antitrust discovery—a company like Ercon is better off simply defending the trade secret suit as best it can on the merits. One important aspect of the merits of these suits is whether liability, or at least the relief that the plaintiff seeks, is federally preempted so that the defendant is not obliged to undergo the expense of a plenary trial by battle or ordeal.

Ercon therefore submits this brief, *amicus curiae*, to present the Court with a view from the business scene in which *in terrorem* trade secret suits are filed as anticompetitive weapons. As both a user and a victim of the law of trade secrecy, Ercon hopes for a resolution of this case that will establish legal precedents under which Ercon can continue in business as an effective competitor. Ercon files this brief with the consent of the parties (letters filed with Clerk).

QUESTIONS PRESENTED

1. Whether every industrial or commercial agreement for confidentiality in perpetuity may be enforced under the principle of freedom of contract, without consideration of federal patent and national competition policies.

2. Whether the duration of royalties in a license under a patent application (that does not subsequently mature into a patent) can be perpetual or, instead, must be reasonably related to the head start value of the secret disclosure in the application.

STATEMENT

Petitioner and respondent in 1956 negotiated an agreement (App. 7-9) providing, in pertinent part, as follows:

1. Respondent would "have the exclusive right to make and sell keyholders of the type shown in [petitioner's patent application], Serial No. 542677.

2. Respondent would pay petitioner $750 as an advance—against 5% running royalties "on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677."

3. If no patent was allowed on Application No. 542677, within 5 years, respondent agreed to pay petitioner a 2½% running royalty "as long as you [respondent] continue to sell same."

Respondent then began making the key rings and continues to do so (App. 18, 21). Their current market value appears to be about 40 cents apiece (App. 30), although one competitive version appears to sell for as little as 9 cents (App. 46).

In 1961 the Board of Appeals of the Patent Office finally rejected petitioner's application on the ground of there being no patentable invention (App. 20), whereupon petitioner "abandoned" further efforts to secure a patent. Until then respondent paid 5% royalties; thereafter it paid at the 2½% rate until 1975, when on the advice of counsel it declined to pay further royalties (App. 18, 22). During the nineteen years in which respondent paid royalties, it paid petitioner a total of approximately $200,000 (App. 19).

The record does not contain the patent application (Serial No. 542677) and thus does not expressly disclose what petitioner licensed to respondent or on what respondent agreed to pay petitioner royalties. The record indirectly discloses this subject matter, however, in that petitioner's husband secured a patent in 1964 on a key ring (App. 33-38) and respondent's counsel asserted that

the subject matter of the patent (then in application form, see App. 18-19) was covered by the 1956 agreement (App. 39, 56). Moreover, the record contains pictures of a number of other key rings (App. 43-53) stipulated to be "substantially identical to that exclusively licensed" by petitioner to respondent (App. 20). In the Appendix to this brief (*infra*) it is shown that this subject matter is that of U.K. Patent No. 707,615, published April 21, 1954, covering a key holder.

Whatever the licensed or royalty-bearing subject matter was, it became generally known in the trade shortly after respondent began selling it. Petitioner's main brief states (p. 4): "The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and in fact, by the late 1960's, others had copied it and were selling similar keyholders"; and the stipulation of facts below (App. 20) says that these competitive key holders were "substantially identical to that" which petitioner disclosed to respondent in 1956. (See also App. 57-58.)

In 1975, after respondent stopped paying royalties (App. 22), respondent brought an action for a declaratory judgment that it was not obligated to pay further royalties (App. 3-6). The parties waived trial, filed cross-motions for summary judgment, and submitted the case for a determination on stipulated facts, the pleadings, and affidavits (App. 59, 61). The district court entered judgment (App. 60) in petitioner's favor. The court of appeals reversed (2-1), on the theory that allowing royalties perpetually on a license under a patent application (which never matured into a patent) was inconsistent with the rule that patent royalties must end after seventeen years, regardless of contrary provisions in a contract (App. 73).

SUMMARY OF ARGUMENT[1]

A. The case at bar is an inappropriate vehicle for comprehensive restatement of the law of trade secrecy preemption. This field of law is too ramified to permit valid universal statements. From state to state and from factual context to factual context all of the following vary widely: the legal theory of the cause of action, the things defined as protectable "trade secrets," the relief available, and the range of persons, with varying relationships to the plaintiff, against whom relief may be had. There is no unitary law of trade secrets; there are diverse trade secret laws.

The factual record of this case (involving a trivial, no-longer secret product) does not present an occasion for resolving the large issues discussed (concerning vast industrial transactions), and for declaring the sweeping rules urged, in some of the *amicus* briefs.

The question properly before the Court is *not* whether federal law never or always preempts state trade secret law—it is clear that the range of preemption is neither total nor nonexistent, but instead occurs or does not, depending on the particular kind of fact pattern (seen with

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[1] Certain cases are cited repeatedly in this brief, and will hereafter be referred to as indicated below:

Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ["*Brulotte*"].

Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) ["*Compco*"].

Goldstein v. *California*, 412 U.S. 546 (1973) ["*Goldstein*"].

Kewanee Oil Co. v. *Bicron Corp.*, 416 U.S. 470 (1974) ["*Kewanee*"].

Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) ["*Lear*"].

Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945) ["*Marcalus*"].

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) ["*Stiffel*"].

the proper degree of generality) that is present in the particular case.

B. The applicable standard for whether federal law preempts enforcement of the contract under state law is whether such enforcement will in some way stand as an obstacle to the accomplishment of the full purposes and objectives of federal law. *Hines* v. *Davidowitz*, 312 U.S. 52, 57 (1941). This calls for a balancing of interests. *San Diego Trades Council* v. *Garmon*, 359 U.S. 236 (1959); *International Association of Machinists* v. *Gonzales*, 356 U.S. 617 (1956). The question thus becomes whether enforcing contracts of this type will significantly interfere with carrying out the objectives of federal policy.

That question can be seen in several ways. One is whether enforcement of such contracts (by which we mean contracts for perpetual royalties) effects a usurpation of the public domain or deprives the public of products that are, or should be, in the public domain. While the language of this Court's opinions in *Stiffel* and *Lear*, for example, support this rationale (and there are also factual circumstances in which perpetual confidentiality agreements can injure the public by curtailing its means of using the public domain), nonetheless the "public domain" rationale may be conceptually inadequate for analytical purposes by encouraging resort to legal conclusion rather than to analysis of the facts.

A second, and we believe preferable, way to view the question is in terms of whether there is a significant risk that enforcing perpetual contracts of this type will disturb a careful economic balance that Congress has drawn (by action and inaction) between free competition and regulated monopoly. See *Goldstein*. We submit that any such disturbance should be permitted, at most, only to an extent not substantially greater than necessary to satisfy the legitimate state law interests at stake here. Thus,

if the legitimate state interest involved here can readily and practicably be satisfied by a much less disturbing and restrictive approach than a pereptual-term royalty agreement, then the permanent enforcement of the agreement should not be ordered by the courts.

C. The principal thread running through the arguments supporting a state law interest in enforcing this agreement is the principle that contracts should be obeyed: petitioner agreed to and did confer a benefit on respondent, and respondent should perform in accordance with the agreement. But the state "interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest" (*Marcalus*). Instead, compromise and accommodation of state and federal interests should be sought.

Accommodation between these interests, rather than supersession of one by the other, can be realized by using a test based on the value of the head start benefit of the secret disclosure. Protecting the head start value is the legitimate state contract law interest at stake here. Accordingly, perpetual running royalties for licenses under patent applications (which were condemned for patents in *Brulotte*) should be deemed objectionable, as too disturbing to the "careful balance" Congress drew (*Goldstein*). But royalties the amount of which is not greatly in excess of the head start value should be tolerated. Respondent seeks no refund; hence, if the $200,000 it paid over nineteen years is greatly in excess of the value of the head start benefit petitioner conferred on respondent, that should be the end of the case.

The test proposed is supported by ample precedent in the lower federal court trade secrecy decisions (see, *e.g.*, *Northern Petrochemical Co.* v. *Tomlinson*, 484 F.2d 1057 (7th Cir. 1973); *Schreyer* v. *Casco Prods. Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952)). It is supported also by precedent in the field of covenants

not to compete and employee post-employment confidentiality agreements. Finally, the test proposed is workable and sufficiently narrow to permit the Court properly to decide the case at bar without being obliged to trace out and define at this time the larger contours of the preemptive doctrines generally appropriate to federal intellectual property law and the adjacent body of state tort, contract, and property law.

ARGUMENT

I. The Question of Trade Secrecy Preemption Cannot Meaningfully be Determined in Universal Terms—the Field Is too Diverse and Problematical for Sweeping Generalizations.

This case is not an apt vehicle for comprehensive restatement or reordering of the law well beyond the factual context presented here. Indeed, the nature of the subject matter mandates the contrary, a particularistic approach. The law of trade secrecy is too ramified—a portmanteau carrying too many disparate legal theories, causes of action, interests, and policies—to permit easy generalizations as to how universally to resolve the small and large conflicts between some of its elements and some elements of federal patent and national competition policies. Those *amicus curiae* that press the Court for such sweeping generalizations about the proper relationship between federal law and the scope of state law (not only as to trade secrets, moreover, but as to all industrial or commercial know-how as well) do the Court and our federal system a disservice. Moreover, the factual record before the Court discloses a series of events that has little to do with the broad principles and imperial-scale business transactions discussed in some *amicus* briefs. The present dispute over payment for a trivial key ring, that long ago stopped being a secret,[2] in a case with large gaps in the factual

[2] At the very least, the key ring stopped being a secret in the 1960's when competitive, "substantially identical" products began

record,[3] furnishes a vehicle most ill-suited for a restatement or recreation of the law of preemption in the intellectual property field.

Trade secret law in this country is largely a Nineteenth Century outgrowth of "unfair competition" doctrine.[4] In simplest terms, trade secret law provides legal machinery by which the discoverer (or his employer or

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appearing on the market (App. 20). Indeed, any secrecy vanished upon respondent's marketing the key ring in 1956 (App. 19), because, as petitioner states in its main brief (p. 4), "The keyholder was such that once it was put on the market by Quick Point it could be copied by others." We show, further, in an Appendix to this brief (*infra*) that the subject matter (a two-piece keyholder consisting of an ornamental medallion and a resilient wire loop for holding keys which is detachable from the medallion by pressing together the free ends of the resilient loop, see App. 18-19, 33-38, 39; see also App. 20-21) was disclosed in a U.K. patent published in 1954, more than a year before both the filing date of petitioner's patent application (cf. 35 U.S.C. § 102(b)) and the agreement between petitioner and respondent.

The facts of this case simply do not present the large questions urged in so many of the briefs. By the same token, the decision of the court of appeals does not have the sweeping impact which those briefs attribute to it.

[3] For example, the record does not disclose the precise subject matter of the agreement. The agreement (App. 23) is for the "right to make and sell keyholders *of the type shown* in your application, Serial No. 542677" (emphasis supplied), but the application is not part of the record. All the Court can do here is *infer* the nature of the subject matter from other documents (such as App. 33-39).

The intent of the parties is not disclosed, and can only be inferred. Did the parties intend a patent license with the license on the application just a stop-gap? Did Quick Point intend to pay royalties on the product if it fell into the public domain, or if it turned out later that it had all along been in the public domain?

[4] In *Kewanee* the Court said trade secret law was imported into the United States in an 1868 Massachusetts decision, *Peabody* v. *Norfolk*, 98 Mass. 452 (1868). 417 U.S. at 493, n. 23. It appears that the development of trade secret law in England does not significantly predate *Peabody*. For a general historical discussion of the roots of trade secret law, see Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc'y 638 (1970).

other successor in interest) of a patentable or unpatentable technological idea (or nontechnological idea or means of doing business) may secure relief against a person who seeks to exploit the idea commercially despite a contractual or other legal duty not to do so.

The legal theory upon which trade secrecy relief is granted greatly varies, and it does so from state to state. The theory may be property,[5] express[6] or implied[7] contract, tort,[8] constructive trust,[9] or unjust enrichment.[10] These differences in theory lead to significant differences in result.

Moreover, the definition of a trade secret or the range of things deemed legally protectable under the name of trade secrecy law also varies widely from state to state. For example, any and all of the following very different

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[5] E.g., *Pearson* v. *Dodd*, 410 F.2d 701, 707-08 (D.C. Cir.) (dictum), cert. denied, 395 U.S. 947 (1969); *Speedry Chem. Prods., Inc.* v. *Carter's Ink Co.*, 306 F.2d 328, 330 (2d Cir. 1962).

[6] E.g., *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Warner-Lambert Pharm. Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), aff'd mem., 280 F.2d 197 (2d Cir. 1960).

[7] E.g., *Trice* v. *Comstock*, 121 F. 620, 623 (8th Cir. 1903); *Plant Industries, Inc.* v. *Coleman*, 287 F. Supp. 636, 644 (C.D. Cal. 1968). The district court in *Kewanee* said that Ohio law creates "an implied agreement on the part of the employee" not to disclose trade secrets to a competitor of the employer. Such so-called agreements are "quasi-contracts." See 3 *A. Corbin, Contracts* § 562 (1950); 1 *S. Williston, Contracts* §§ 3-3A (3d ed. 195[illegible]).

[8] E.g., *Bruce* v. *Bohanon*, 436 F.2d 733 (10th Cir. 1970), cert. denied, 403 U.S. 918 (1971); *Smith* v. *Dravo Corp.*, 203 F.2d 369, 373 (7th Cir. 1953) (breach of confidence is tort); *Restatement of Torts* § 757 (1938).

[9] E.g., *Trice* v. *Comstock*, 121 F. 620, 622 (8th Cir. 1903); *By-Buk Co.* v. *Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 329 P.2d 147 (Dist. Ct. App. 1958).

[10] E.g., *Servo Corp.* v. *General Elec. Co.*, 337 F.2d 716, 722-25 (4th Cir. 1964), cert. denied, 383 U.S. 934 (1966); *Engelhard Indus., Inc.* v. *Research Instrumental Corp.*, 324 F.2d 347, 352 (9th Cir. 1963), cert. denied, 377 U.S. 923 (1964).

things have been called trade secrets: computer programs, plans for building a polyethylene factory, plans for building a jet engine, the idea for a key ring, customer lists, sales promotional plans, ideas for the format of a new tax law service. The amount of ingenuity or novelty requisite is also variable from jurisdiction to jurisdiction. Thus, combinations of elements that can readily be devised by a skilled mechanic upon demand may [11] or may not [12] be deemed capable of being the subject of a legally protectable trade secret. The subject matter of an expired patent may [13] or may not [14] be protectable under trade secret law.[15]

[11] *Atlantic Wool Combing Co.* v. *Norfolk Mills, Inc.*, 357 F.2d 866 (1st Cir. 1966).

[12] *Sarkes-Tarzian, Inc.* v. *Audio Devices, Inc.*, 166 F.Supp. 250, 265 (S.D. Cal. 1958), aff'd mem., 283 F.2d 695 (9th Cir. 1960), cert. denied, 365 869 (1961) (combinations that are readily ascertainable by a skilled mechanic cannot be the subject of a trade secret).

[13] *Franke* v. *Wiltschek*, 209 F.2d 493 (2d Cir. 1953).

[14] *Luccous* v. *J. C. Kinley Co.*, 376 S.W.2d 336 (Tex. 1964).

[15] Thus, that a particular state characterizes a given legal doctrine as "trade secret law" does not guarantee that that doctrine will steer clear of protection of nonsecret things "in reality a part of the public domain" (*Lear*, 395 U.S. at 656). At the same time, there is substantial pressure from some segments of the bar (views that are reflected pervasively in the *amicus* brief of the American Patent Law Association) to sweep up every conceivable kind of nonsecret know-how under the state trade-secret-law umbrella, and thus expand the concept of "trade secret" to the horizons of industry and commerce.

To be sure, this pressure to expand the scope of "trade secret" runs counter to the underlying assumptions of *Kewanee* and to a considerable body of existing law in the lower federal and the state courts. Thus, in *Kewanee* the Court seems to have assumed a consensus definition of "trade secret," under which "secrecy * * * implies at least minimal novelty" (416 U.S. at 476), and it expressly stated that "[b]y definition a trade secret has not been placed in the public domain" (*id.* at 484). It has been suggested that the Court may have intended to overrule, by implication, those cases taking a more expansive view of what can be protected as a "secret" (Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 962 (1974)), but this is at the very least an unsettled question.

The ultimate point is that the definition of "trade secret" itself is a Pandora's Box. Any broad resolution of trade secrecy preemption requires that box to be opened, and it is unpredictable what will come out of that box before it can be closed.

The form and extent of relief granted also varies from state to state. The quantum of damages, type of injunction (if any), and scope of ancillary relief also varies. The court may extend protection to the product made by the trade secret holder, whether or not the secret is used to make the product,[16] or the court may protect only against use of the secret in making such products.[17]

The potential range of persons against whom relief may be had is also considerable, covering a spectrum definable in terms of the relation that exists between the defendant and the holder of the trade secret. One end of the spectrum includes purchasers or "bailees" of products or intangibles (such as computer programs), who become subject to a covenant running with the product or intangible, limiting their freedom to use information gained as a result of the purchase or "bailment." Next on the spectrum are licensees or subcontractors to whom the trade secrecy claimant has disclosed the secret, subject to a contract expressly or impliedly limiting the disclosee's use or subjecting the use to a condition (such as royalty payments). Next are present or former employees who are subject to an express contract, or implied contract or duty, not to disclose or subsequently use the secret after they go to a different job. Partners and fiduciaries of the trade secret holder also have an

[16] *Sperry Rand Corp.* v. *Electronic Concepts, Inc.*, 325 F. Supp. 1209, 1219 (E.D. Va. 1970), aff'd, 447 F.2d 1387 (4th Cir. 1971), cert. denied, 405 U.S. 1017 (1972).

[17] *Hampton* v. *Blair Mfg. Co.*, 374 F.2d 969, 973 (8th Cir. 1967); *Winston Research Corp.* v. *Minnesota Min. & Mfg. Co.*, 350 F.2d 134, 143-44 (9th Cir. 1965).

obligation, implied by law, with respect to the secret. Finally, there are third-party trespassers—those who "steal" the secret by means of burglary, espionage, or other conduct deemed unprivileged. The policy considerations that properly apply to different segments of this spectrum vary significantly with the relational interests at stake. The reliance of the courts on duties implied or imposed by law, in addition to those existing by express consent, similarly makes for different policy considerations applicable to different contexts.

In sum, the law of trade secrets cannot properly be viewed as a single, well-defined body of doctrine. Like the rest of unfair competition law, which includes a broad spectrum of practices,[18] trade secret law is a congeries including diverse legal principles and theories applied to a considerable range of conduct. There is no unitary "trade secret law"; there are many trade secret laws. Consequently, the sweeping generalizations about trade secrecy law that occur in some of the *amicus* briefs are, if embraced, an invitation to disaster in the administration of the law. The case at bar can be decided rationally, we submit, only in the light of policies applying to its particular type of context and it cannot properly be a jumping off point for final settlement of the whole trade secrecy preemption question.

It seems clear to us that, at some point, the policies and objectives of the federal patent system and national competition policy will meet or have already met serious obstacles from the enforcement of some of what is at

[18] The spectrum includes such practices as the "palming off" of one's goods as those of another, by using another's trade name (said, in *Stiffel*, not to be preempted), the "misappropriation" of the design of goods in disregard of the expenditures of time and money by the first comer (preempted in *Stiffel*), and misrepresentation as to the nature or quality of one's own or another's goods. Cf. Federal Trade Commission Act § 5, 15 U.S.C. § 45; *FTC* v. *Sperry & Hutchinson Co.*, 405 U.S. 233, 244 and n. 5 (1972).

some times and places called "trade secrecy law." The diversity of the subject matter alone is enough to insure that: (1) legal relief supporting asserted rights to things protected under this legal rubric in some circumstances in some jurisdictions surely can interfere with the achievement of federal patent and national competition policies; while (2) other circumstances will occur in which the opposite is true. The question properly before this Court, to which we presently turn, is not that of drawing the entire map for this area of law, but simply whether the instant case (seen with the proper degree of generality) is within the one category or the other.

II. Agreements for Confidentiality in Perpetuity can at Times Stand as Obstacles to the Accomplishment of the Objectives of Federal Law.

There is no serious disagreement over the general standards of federal preemption. In other contexts very different standards of preemption may well apply,[19] but

[19] For example, state law is automatically preempted when it orders conduct opposite to conduct that federal law commands or the same as that which it prohibits. *Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142-43 (1963); *Free* v. *Bland*, 369 U.S. 663 (1962) (federal law provides that surviving co-owner of bond succeeds to title; state law, that heir succeeds); *Amalgamated Ass'n of Employees* v. *Wisconsin Employment Relations Bd.*, 340 U.S. 383, 398-99 (1951) (state anti-strike law in conflict with federal labor legislation protecting right to strike); *Case* v. *Bowles*, 327 U.S. 92 (1946) (state law commanded sale at price found to be prohibited by federal price controls); see *Franklin National Bank* v. *New York*, 347 U.S. 373 (1954) (federal law authorized use of "savings" bank title that state law prohibited). This case involves no such extreme conflict, however.

In other cases, again not pertinent here, state law is virtually automatically not to be preempted, because there is a compelling and overriding state interest at stake, such as that in preventing physical violence or other very socially disruptive conduct. See *San Diego Bldg. Trades Council* v. *Garmon*, 359 U.S. 236, 247-48 (1959). Nonlabor cases recognize other areas of preeminent state interest.

in the instant case the question is simply whether enforcement of agreements of the type in issue will in some way stand as an obstacle to the accomplishment of the full purposes and objectives of federal law. See *Hines* v. *Davidowitz*, 312 U.S. 52, 57 (1941) (leading case).[20] Whether the two systems of law, state and federal, are similar or different in objectives or policies is not in itself determinative (*Perez* v. *Campbell*, 402 U.S. 637, 651-52 (1971); *Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142 (1963)), although such duplication or difference may in some circumstances be the cause of a significant degree of interference by the state law with the accomplishment of the federal objectives and policies. Still, it is only the latter which is critical—if there is a significant degree of interference state law must give way, and if there is not a significant degree of interference state law should be left undisturbed, in both cases regardless of the state's purpose.

This preemption test clearly requires a balancing of interests. It is appropriate to ask, but it is not enough to ask merely, whether enforcing such contracts will significantly decrease the likelihood that particular things or

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besides violence or socially disruptive conduct, such as the state's interest in the health and safety of its citizens. See *Huron Portland Cement Co.* v. *City of Detroit*, 362 U.S. 440, 445 (1960) (air pollution); *Southern Pac. Co.* v. *Arizona*, 325 U.S. 761, 766 (1945) (health or safety) (dictum); cf. *Plumley* v. *Massachusetts*, 155 U.S. 461, 472 (1894) (fraud and deception in sale of food).

[20] The Solicitor General misstates the law (Br., pp. 9, 11, 13) in suggesting that the entire test is whether action in the name of state law "frustrates" federal policies. Compare the more modest statement of the law in Pet. Br. 10-11. Preemption need not wait until the state actually "frustrates" federal policy; it is sufficient that there be enough interference as to "impair the federal superintendence of the field" (*Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142 (1963)). We think it fair to say that the *Hines* test, in requiring an "obstacle," does not demand an absolute "barricade." The proper distinction is between a significant or substantial interference on the one hand and a trivial or insubstantial inconvenience on the other.

events will happen that federal law is aimed at making happen.[21] A reasoned analysis requires consideration,

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[21] These are such things as encouragement of invention, disclosure of invention, recourse to the patent system, and the like.

We think that the unmitigated and undifferentiated enthusiasm in certain *amicus curiae* briefs for the trade secrecy system, in all its varied ramifications, as a substitute for the patent system is excessive and unwarranted by the facts of commercial life, and it ignores the real social costs of trade secrecy law. See, e.g., Brief of Solicitor General, Brief of American Patent Law Association, *passim*. This is so particularly as to ex-employees bound by express or implied contracts of adhesion limiting their freedom to seek new jobs or start up their own businesses. See generally Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 682-83 (1960); Goldschmid, *Antitrust, Neglected Stepchild: A Proposal for Dealing with Restrictive Covenants Under Federal Law*, 73 Colum. L. Rev. 1193, 1200-01 (1973); Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 982-986 (1974).

It is said that trade secret agreements will not "diminish disclosure by diverting inventions from the patent system" (Brief of Solicitor General at p. 14). Others have echoed this assumption, uniformly without factual support in the form of empirical evidence (in this record or elsewhere). The only data that exists anywhere is that in recent years a number of commentators (primarily, members of the patent bar) have noted that there is severe competition between the patent and trade secrecy systems, some of them suggesting that the trade secret route is likely to be the more advantageous choice for business. See, *e.g.*, Frost, *Patent Rights and the Stimplation of Technical Change*, in Patents and Progress 61, 67-8 (Anderson, Terpstra, Shapiro eds. 1965); Milgrim, *Trade Secret Protection and Licensing—A True Alternative*, 4 Pat. L. Rev. 375 (1972); Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc'y 638, 665 (1970). Frost, *supra* at 68, states that trade secret protection has already supplanted the patent system in a number of fields of technology (e.g., plastic compositions, alloys, photographic emulsion manufacturing). One distinguished commentator in the field has gone so far as to say that the "bright prospects for the future of trade secrets might possibly cause a flight from the patent system." Address by Roger Milgrim, Before FBA-BNA Briefing Conference, reported in No. 182, BNA Pat., Trade, Copr. J. at p. A-9 (June 13, 1974). It thus appears that the only evidence, such as it is, points in the direction of the very diversion that it is assured to the Court will not happen. We think that the diversion problem is only a subsidiary issue, however, and other aspects of the preemption question are much more pressing,

also, of whether enforcing contracts of this type will significantly disturb a balance that Congress set, by its omission or inaction as well as by affirmative regulation. See generally *Goldstein*, 412 U.S. at 569-70; *San Diego Building Trades Council* v. *Garmon*, 359 U.S. 236 (1959); *International Ass'n of Machinists* v. *Gonzales*, 356 U.S. 617 (1958).

There are, potentially, two principal rationales for determining preemption *vel non* of trade secrecy law (apart from that relating to the possible diversion of inventions away from the patent system, see note 21, *supra*), both of which relate to the federal patent and national competition policies extensively discussed in the Solicitor General's *amicus* brief (pp. 10-11 and *passim*).[22] As that

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here. For a general criticism of the arguments made for and against the rationale for trade secrecy preemption based on diversion of inventions (and their disclosures) away from the federal patent system, see Stern, *supra*, at 946-52, 968-69.

In our view, there is no point in considering the preemption rationale based on diversion of inventions away from the patent system, in the case at bar. Petitioner did not have an "invention," and petitioner was not diverted away from the Patent Office. In fact, petitioner did file a patent application and the Patent Office rejected it for lack of invention (App. 20). The facts of this case therefore furnish no sound basis for generalizations about future cases with a contrary state of facts.

[22] Our national policy, derived not merely from the antitrust statutes but from a considerably more pervasive body of statutory and case law, is free competition (see *Gulf States Util. Co.* v. *FPC*, 412 U.S. 944 (1973); *United States* v. *Philadelphia Nat. Bank*, 374 U.S. 321, 372 (1963)), which allows the forces of the marketplace rather than self- or government-appointed regulators to allocate our economic resources. Its premise is that unimpeded operation of market forces will bring about the greatest material progress and at the same time preserve and promote our political and social institutions (see *United States* v. *Topco Assoc., Inc.*, 405 U.S. 596, 610 (1972); *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 4 (1958)).

A major exception to this policy, but one designed to promote the same end of material progress, is the federal patent system (see *Blonder-Tongue Labs, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313, 343 (1971); *Lear*, 395 U.S. at 663; *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945)). To promote the progress of science and useful arts, the patent system offers inventors the incentive of a limited competitive advantage over others as a reward for disclosing inventions. The patent system substitutes a 17-year monopoly for free competition, if the inventor can comply with the patent statute's strict requirements of novelty (35 U.S.C. § 102), inventiveness (35 U.S.C. § 103), and utility (35 U.S.C. §§ 101, 112), and is willing to comply with the statute's requirements of full disclosure (35 U.S.C. § 112).

brief properly suggests, a complementary approach to competition, monopoly, innovation, and material progress —simultaneously utilizing the patent system of regulated monopoly and the free competition system together to benefit the public maximally—has long characterized our law.[23] This Court has consistently recognized this dual policy. Thus, in *Goldstein* (412 U.S. at 569) the Court stated that the standards of the federal patent laws "indicated not only which articles Congress wished to protect, but which configurations it wished to remain free." In enacting the patent scheme Congress "balanced the need to encourage innovation and originality" against society's "need to insure competition in the sale of identical or substantially identical products," carefully drawing the balance at the inventive level defined by the patent statute. Accordingly, where the patent laws stop the public domain of competition begins.[24]

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[23] The Statute of Monopolies, 21 Jac. I, c. 3 (1623), for example, prohibited monopolies but permitted an exception for new and useful innovations. *Stiffel*, 376 U.S. at 229 & n. 6. The antitrust laws and patent laws continue forward these twin branches of the Statute of Monopolies.

[24] *Goldstein's* explanation of federal policy does not clear new ground; it merely places an explanatory gloss on *Stiffel*, *Compco*, and *Lear*, for the principle is one to which the entire Court adhered without dissent in these cases. Dissenting opinions in these cases all involved other issues on which there was disagreement.

One possible rationale for determining whether preemption should occur here that emerges from these cases and the foregoing federal policy, therefore, is that private parties should not be allowed to usurp control over products "in the public domain." A second possible rationale involves maintenance of the particular economic balance that Congress carefully drew in order to maximize competition and the flow of commercial ideas, and a determination of whether enforcement of the type of contract involved here unduly disturbs that careful balance. For the reasons that follow, we believe that the second rationale is preferable.

The first possible rationale (usurpation of the public domain) finds support in the language of the cases, particularly *Stiffel*, *Compco*, and *Lear*. The problem is that the phrase "in the public domain," as it has been used in the cases, is much less an empirical datum or operative fact than it is simply the reflection of an ultimate legal conclusion. That legal conclusion depends, in any given case, on the tribunal's analysis of the policies of patent law, anti-monopoly law, the common law as to covenants not to compete, and even more general notions as to personal mobility and freedom, or the sanctity of promises.[25]

[25] Thus, when the Court said, in *Stiffel*, that "[a]n unpatentable article, like an article on which the patent has expired, *is in the public domain* and may be made and sold by whoever chooses to do so" (376 U.S. at 231 (emphasis added)), it stated an ultimate conclusion about the legal protection it deemed legitimately available for all such products, rather than a factual observation about whether particular products had been observed to be in the public domain. Clearly, the same is true of Mr. Justice Frankfurter's statement in *Marcalus*, 377 U.S. at 522 (dissenting opinion), that "[a] machine that is not patentable because it is not novel is just as much part of the public domain as a machine on which the patent has expired". See also *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 522 (1964) (Black, J., dissenting) ("When articles are not patentable and therefore are in the public domain * * * to grant them a legally protected monopoly offends the constitutional plan of a competitive economy free from patent monopolies except where there are patentable 'Discoveries' ").

Similarly, the *Lear* concept of "full and free use by the public" is more of a legal conclusion of the use of the product to which the public is *entitled* than it is a factual observation about the real availability of the idea to the members of the public. This is really an oblique statement that the public's "use" of technology is necessarily indirect—the technology is used not by consumers themselves, but by manufacturers or tradesmen who ultimately sell to consumers products embodying the technology.[26] There is a core of substantive policy in the "public domain" argument for preemption, but there is serious difficulty in separating mere discourse and legal conclusion from underlying operative fact.

There are nonetheless practical contexts in which agreements for confidentiality in perpetuity, that are quite like the present contract, can seriously injure the public in one way or another by curtailing the public domain. For one example, if the present contract is permissible, why is not the following hypothetical: an IBM (or a Xerox or any other powerful firm) adopts a provision in its standard employment contract to the effect that the employee agrees that, if he ever goes to another employer or starts up his own new company in competition with IBM, he will pay a 50% running royalty forever on the sales price of any product that utilizes in any way some of the confidential information that the employee gained while in IBM's employ, regardless of whether such information is at the time generally known. For another

[26] In the *Lear* and *Stiffel* cases, those who asserted the right of the public to full and free competition did so as surrogates for the public; there is no practical way for the public, virtually ever, to use ideas "in the public" domain except through such surrogates. Accord, *Marcalus*, 326 U.S. at 255-56 ("If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an 'estoppel,' from using the invention of an expired patent, he would deprive himself *and the consuming public* of the advantage to be derived from his free use of the disclosures") (emphasis added).

example, IBM enters into a contract like that involved between petitioner and respondent. The public can get all the benefits of competition by buying the product from IBM's competitors, if it can find them. In the meantime, IBM passes the price on because of administered pricing. Of course, not every trade secret agreement will hurt the public by curtailing the scope of the public domain. But it is blind in the extreme to deny that enforcement of such agreements will *never* interfere with the objectives of national competition policies.[27] The problem of legal analysis, however, may be that the doctrine that the public is entitled to the full and free use of things in the "public domain" is too blunt a conceptual instrument for the task now before the Court. We think that the same ground can be covered more effectively under a second conceptual approach, however, to which we now turn.

[27] The Solicitor General recognizes this (Br. at 27 and nn. 13-14), but (1) assures the Court that it can rely on the option of enforcement of the antitrust laws to safeguard the public against all such risks, and (2) urges the Court at the same time, not to create any policy of nonenforcement of contracts "beyond that which is clearly the requirement of the Sherman Act." The first proposition is surely an illusory promise in the present context, for the antitrust laws are an unworkable and incredibly costly tool here. Small manufacturers and ex-employees cannot afford such luxuries as proving relevant market, dangerous probability of success, or a rule of reason case, in order not to be bound forever by a confidentiality agreement; nor can they afford the massive discovery mounted in such cases. At best, only the Antitrust Division or a corporate giant can afford the expense of and can successfully administer such a struggle. As for the second point, what "clearly" is prohibited by the Sherman Act does not represent the outer boundary of what harms the public when perpetual confidentiality agreements are enforced. As this Court has observed in a different context, monopoly can thrive at a creeping pace as well as at full gallop (see *International Salt Co.* v. *United States*, 332 U.S. 392, 396 (1947) (patent tie-ins held illegal *per se*)).

Unless preemption remains as an alternative legal device to deal with these problems in appropriate cases, there will be no available legal device at all. "The option of enforcing the antitrust laws against such restraints" (Br., *supra*, at 27, n. 13) is simply not a viable option.

The second possible rationale for selective determination of preemption *vel non*, and we think the better one, rests on maintaining the particular economic balance that Congress carefully drew in enacting the patent laws. As *Goldstein* pointed out (412 U.S. at 569-70), Congress drew an economic balance between the public's need for or right to free competition and its need for innovation, a balance designed to maximize the public good. There is a similar public need for and balance drawn to protect free interchange of commercial ideas, which is recognized in such cases as *Atlantic Works* v. *Brady*, 107 U.S. 192, 199-200 (1882), and *Lear*. See also *Gottschalk* v. *Benson*, 409 U.S. 63, 67 (1972) (abstract intellectual concepts not patentable, because "they are the basic tools of scientific and technological work"). This "careful balance" (*Goldstein*, 412 U.S. at 570) also reflects, to a significant degree, the recognized limits that the Constitution (Article I, § 8, Cl. 8) places on the Congress' power to promote the progress of science and useful arts by "for limited times" granting inventors exclusive rights to their discoveries. In any event, perpetual confidentiality agreements clearly can and do disturb this equilibrium, to some degree, and therefore there is at times some impact on or alteration of "the careful balance which Congress had drawn." If the amount of impact is undue, the enforcement of these agreements under state law must give way. The question then becomes one of the degree of impact—when it is *undue*.

We submit that any substantial impact is undue and thus impermissible, unless there is a permissible state purpose practicably achievable only by such state action. Congress, in establishing federal law is entitled to strike a balance, within the limits of the Constitution; once such a balance is struck, it should not be drawn or altered by the operation of state law, at most, appreciably beyond the amount necessary to carry out the state law purpose. How much, then, is such a "substantial" and thus undue and impermissible impact? It is pointed out,

to be sure, that trade secret relief does not operate against all the world and thus is not fully "the equivalent of a patent monopoly" (*cf. Stiffel*, 376 U.S. at 233); for that reason, it must be conceded, such a system is not fully as objectionable as a state law patent system (such as that involved in *Gibbons* v. *Ogden*, 9 Wheat. 1 (1824)),[28] but that is simply not dispositive. State action need not be the *full equivalent* of a patent monopoly to be substantial enough to interfere impermissibly, under *Hines*, *supra*, with the accomplishment and execution of the full purposes and objectives of Congress. The 20% or 40% equivalent of a patent monopoly may be enough, also. One cannot, of course, quantify impacts of this type as 20%, 40%, or 100% equivalents of a patent monopoly. We think that ways can be suggested, however, in which the impact of enforcing perpetual trade secrecy agreements may be severe enough at times to warrant preemption, because the impact of enforcement is disproportionately greater than the legitimate state interest protected. Several such ways were already suggested (*supra*, pp. 21-22) as hypotheticals under the "public domain" rationale.

A significant insight as to further possible competitive impact is given by *Lear*. The distinction between relief against all the world, on the one hand, and relief against only the class of persons as to whom the trade secret claimant has a relational or other legal interest, on the other hand, may be illusory if those potentially subject to such relief are the particular persons likely to be of principal competitive significance to the public as potential entrants into the market. The same type of "limited class" of persons bound argument was made for the doctrine of licensee estoppel dealt with in *Lear*. There, it

[28] Contrary to the assertions of one of the *amicus* briefs (American Patent Law Association, at p. 34), the *Gibbons patent*-preemption issue *was* extensively briefed in this Court in *Compco*. See Brief for United States as *amicus curiae*, in the *Compco* and *Stiffel* cases, pp. 21-23 and n. 11.

was asserted that the whole public was not estopped from competing with the patentee by infringing his patent and challenging its validity if sued; rather, the only ones estopped were those who promised the patentee not to challenge validity. The Court rejected that argument, because the estopped licensee was often the most likely new competition available, and the overwhelming majority of the public simply had no ability to enter the particular market.[29] The consuming public at large is the beneficiary of competition only to the extent that rival tradesmen benefit from unrestricted exploitation of technological advances.[30] That state trade secret law relief operates against less than all the world does not make such law competitively irrelevant, because, like estopped licensees, disaffected employees or dissatisfied parties to agreements may often be those most likely to furnish the public with competition. Hence, muzzling them creates a significant risk that few or no others will step forward to benefit the public by exploiting the advance competitively.

The question then is what conclusion should be drawn from the risk that enforcement of perpetual secrecy agreements will "disturb the careful balance which Congress had drawn" (*Goldstein*, *supra*). If the risk is substantial enough in the abstract, in a particular situation or pattern of events, is that enough for preemption? Or must the disturbance be shown, as a matter of fact, in each individual case before the individual contract must give way? It is probably impractical to show specific adverse effects on the achievement of federal policies and objectives in each perpetual confidentiality case.[31] Instead, it

[29] See *Lear*, 395 U.S. at 670.

[30] See note 26, *supra*.

[31] Preemption cases rarely, if ever, will come to this or any other court with trustworthy data in the record or briefs, that the court can rely on for general policy-making purposes. The search for appropriate such facts is probably a futile exercise in any event. Should the preemption issue for a whole category of industrial ar-

probably should be enough to show that the risk of that happening is significant, in general, and that in the particular case the legitimate state law interest at stake can readily be satisfied by adopting something much less restrictive or much less potentially disturbing to the federal equilibrium—in the instant case, that would mean something much shorter and less restrictive than a perpetual-term agreement. In the next section of this brief, a selective preemption test is proposed that (we believe) can eliminate undue disturbance of the carefully drawn federal balance, can satisfy the legitimate state law interest at stake, and finds support in the case law.

III. To Avoid Undue Interference With Federal Law, While at the Same Time Protecting Legitimate State Law Interests, the Royalty-Bearing Life of a License Under a Patent Application Must Be Reasonably Related to the Head Start Value of the Secret Disclosure.

A number of interests may be advanced in support of state trade secret enforcement.[32] The principal thread

rangements turn on adversary strategies, concessions of counsel at argument, the happenstance of a particular record? Would such a record add credibility to the decision-making process? For a more extensive criticism of the record or "Brandeis brief" approach to deciding preemption questions, see Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 947-48 (1974).

[32] Except for the interest of freedom of contract, which is the focus of the discussion in text that follows, the interests are highly speculative and at best make weights. Thus it is said that states should be permitted to encourage disclosure and to protect investments made to create new ideas (although no substantial such investment was shown to have occurred here). This is on the theory that the federal patent system (which petitioner unsuccessfully sought to invoke) is not a sufficient incentive for R & D or disclosure and therefore needs to be supplemented. Not only is there no empirical support for the notion that a lower standard than that provided by the patent laws would call forth more rapid technological progress than is presently elicited (by the pressures of competition, by government and university funding, and of course by the patent system itself, among many other things), but the notion makes an

running through them, we believe, is that of freedom of contract or that contracts should be obeyed: petitioner agreed to and did confer a benefit upon respondent, respondent agreed to pay petitioner a particular consideration in return for the benefit, and commercial morality therefore requires that respondent should perform in accordance with the agreement. *Pacta sunt servanda.*

But freedom of contract is not an absolute, nor is the principle of commercial morality. They are simply factors in a larger analysis. The argument for business morality was made by the lower court in *Compco*;[33] it was the pre-*Lear* basis for licensee estoppel; it was urged as a justification for price-tampering in *United States* v. *Socony-Vacuum Oil Co.*, 310 U.S. 150, 220-21 (1940). Business morality is a social need, but it is insufficient in itself to justify a limitation on the accomplishment of the objectives of the federal patent system and national competition policy. This Court has consistently demanded a more detailed analysis and justification for legal doctrines or rules in this area. See, *e.g.*, *Compco*, *Lear*, *Socony-Vacuum*, *supra*. As this Court said in *Marcalus*, 326 U.S. at 257, the state's "interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest" sought to be secured by the patent laws. The state interest is legitimate, in the sense that the police power will support *some* state action here, but the interest is hardly so preeminent as to

assumption directly contrary to that of the congressional scheme, which is that the standards of the patent laws are the optimum level to call forth technology without undue social cost.

Any prolonged discussion of these interests, however, would necessarily be sterile. Speculation will only be countered by further speculation. To the extent that there is any legitimacy in these other claims of state interest, the interests are satified by the test proposed here to meet the legitimate demands of freedom of and obedience to contract.

[33] 311 F.2d at 30.

justify significant interference with the accomplishment of federal policies or disturbance of a federally-struck balance. The area is clearly one in which compromise and accommodation is to be sought, rather than the supersession of one principle by the other. We submit that such an accommodation is practicable.

Petitioner and respondent agreed on a license under a patent application; although the application in fact never matured into a patent (because the Patent Office Board of Appeals held the key ring unpatentable, App. *20*), nonetheless petitioner conferred some degree of benefit on respondent by disclosing to it something perhaps then a secret (although no longer so for many years now).[34]

The benefit that petitioner conferred on respondent was a head start. Petitioner did not confer a secret process, which respondent still monopolizes (or in which it shares a monopoly). It did not confer an exclusionary right, such as an exclusive patent license or the assignment of a patent.[35] Still, the head start had some value: respondent was able to enter the market before competitors, establish a marketing position, gain some degree of customer habit or good will, and so on.

Our view is that the value of the head start may properly be considered a rough guide to the measure of damages in this and similar cases. To limit what respondent owes petitioner to something not greatly disproportionate to the value of the head start would, to be

[34] The degree of benefit in the case at bar was, however, necessarily a limited one. The Patent Office held the subject matter unpatentable (App. 20), which meant that the Patent Examiner (with whom the Board of Appeals agreed) must have found one or more prior art references (such as patents or publications) that were so close to petitioner's key ring that no patent could be allowed.

[35] If petitioner's application had matured into a patent, instead of being rejected by the Patent Office as unpatentable, such a right would have eventually come into being. The case would then be one like *Lear* or *Brulotte*.

sure, deprive petitioner of some of its present expectations. But it would not unjustly enrich respondent continuingly at petitioner's expense, nor would it deprive petitioner of anything beyond what is really a windfall. More important, to require this respondent to pay this petitioner (and by implication other licensees under other patent applications to pay other such licensors), the value of the head start would justly compensate the petitioner without significantly disturbing the carefully drawn economic balance of the federal patent laws and national competition policy. On the other hand, to require licensees in respondent's position to pay continuing royalties greatly in excess of the head start value of the once-secret disclosure contained in the patent application would unduly disturb that balance, without significant compensating benefits.[36]

Congress itself is limited to protecting inventors of true discoveries for only limited times—in the case of the present statute, for seventeen years (35 U.S.C. § 154), after which the subject matter belongs absolutely to the public. *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 119-20 (1938). Hence, state law may not be invoked, whether to safeguard commercial morality or freedom of contract, to enforce a contract for the payment of royalties beyond the seventeen-year life of the patent (*Brulotte*). "If that device were available to patentees," the Court said, "the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there" (379 U.S. at 32-33). By the same token, contract law principles should not justify a perpetual royalty-bearing life for a license under a patent application eventually abandoned for lack of

[36] It is not necessary for the purposes of this case to determine anything beyond whether respondent has already paid petitioner an amount substantially greater than what was properly owed petitioner. Respondent does not seek a refund; it simply wants to stop further payments.

invention, and no longer a secret, for that too would subject the free market visualized for nonsecret unpatentable products to monopoly-like influences that have no proper place there.

That does not mean that the licensee should pay the licensor nothing, but royalty payments that are (1) too much like those a legitimate patent would command, and (2) greatly in excess of the value of the legitimate extra-patent system benefit conferred (which is to say the head start value)—come far too close to the point of duplicating the patent system and its mechanisms, and redrawing the economic balance that Congress carefully drew under federal law. To the extent, therefore, that the continuing recovery of damages sought by respondent is substantially beyond the head start value of respondent's perhaps once-secret (but not now secret) disclosure, the court below was right in denying relief to petitioner, and its judgment should be affirmed.

The damages rule urged here finds substantial precedent in the trade secret law field, where it has been extensively employed as the proper measure for the length of injunctions and has also been used to determine appropriate monetary awards. Indeed, there is no proper basis for distinguishing between injunction and damages cases in this context, for either type of relief can disturb the economic balance set by Congress.[37] The proper line

[37] Generally speaking, damages awards may interfere with federal policies virtually as much as injunctions, see *New York Times Co.* v. *Sullivan*, 376 U.S. 254 (1964), while narrow and brief injunctions may be relatively harmless. See *Boys Market, Inc.* v. *Retail Clerk's Union*, 398 U.S. 235, 247-49 (1970).

More specifically in the present context, in *Compco*, the Court declined to accept the proposition that monetary relief was unpreempted while injunctive relief was preempted. See Brief of the United States as Amicus Curiae at 7, 34-37, *Compco* (so suggesting). Instead, the Court ruled that both forms of relief were preempted because they would improperly discourage federally protected copying of unpatented products (376 U.S. at 237).

of demarcation does not depend on whether law or equity is involved[38]—it depends on the impact of state relief on the relevant federal policies (see generally *Sola Elec. Co.* v. *Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942)). As the state remedy comes closer to duplicating the exclusionary remedy of the patent system,[39] there is progressively more significant interference between the two schemes, preventing full accomplishment of the objectives of the patent laws and the objectives of the complementary national competition policy. The seeming near identity of rights conferred by federal and state law led the Court in *Stiffel* to hold state law preempted: "The judgment gave Stiffel the equivalent of a patent monopoly on its unpatented lamp" (376 U.S. at 233).

The recent trend of trade secrecy injunction decisions has been to deny perpetual injunctions and to limit the duration of relief to the actual or projected period of continued secrecy of the trade secret. The injunction granted by the district court in *Kewanee*, for example, was limited in duration to the actual period of secrecy,[40] which may be terminated by independent discovery and publication, or by any other disclosure that occurs by

[38] In patent misuse cases (*i.e.*, examples of a patentee's misuse of the economic leverage of his patent to expand his base of power into adjacent fields, such as by conditioning a license under the patent on the licensee's purchasing unpatented supplies from the patentee), the Court has refused to confine the doctrine to injunction cases, see, *e.g.*, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917), but has applied it to suits by the guilty patentee for monetary relief, as well, see *Morton Salt Co.* v. *G. S. Suppinger Co.*, 314 U.S. 488 (1942).

[39] The monetary relief equivalent of a perpetual injunction is an accounting for all profits made, or damages for all lost sales. Damages measured by the value of the effort necessary independently to redevelop the secret, or the value of the head start the possessor of the secret would have enjoyed, are the equivalent of a limited-time injunction. The value of a running royalty in the circumstances, obviously, can be anywhere along this spectrum.

[40] See *Kewanee* App. at 94.

lawful means. The projected period of secrecy is customarily measured by determining how long it would have taken to have independently rediscovered the technology—perhaps by means such as reverse-engineering—once goods embodying that technology were available in the marketplace.

Thus, the better or prevailing view in the lower federal courts [41] now seems to be that expressed in such decisions as *Northern Petrochemical Co.* v. *Tomlinson*, 484 F.2d 1057, 1059 (7th Cir. 1973)—"that period of time for which a wrongdoer [ex-employee bound by secrecy agreement] is to be restrained from the use of a trade secret is [limited] * * * to the period which would have been necessary to develop the secret by independent means." The *Northern Petrochemical* court went on to hold that it would not allow the punitive remedy of a longer injunction, because "only in exceptional cases" should a remedy be granted "which more than compensates a plaintiff for his loss [to the ex-employee or misappropriator]," and it was "manifest" that "the theft of a trade secret is not such an exceptional case" (*id.* at 1060). The Seventh Circuit found further support for its position (*ibid.*) in the national competitive policy that those who copy industrial products from others should not, once the secret product has generally become known in the market, be kept out of the business for all time (so long as the plaintiff elects to enforce its injunction).[42]

[41] There was a former line of authority in the Seventh Circuit and in courts following its lead, to the contrary effect, but the Seventh Circuit now appears to have abandoned this view. See *Forest Labs., Inc.* v. *Pillsbury Co.*, 452 F.2d 621, 624 n. 4 (7th Cir. 1971).

[42] The law in the Eighth Circuit and Missouri (applicable here) is to the same effect. See *Hampton* v. *Blair Mfg. Co.*, 374 F.2d 969 (8th Cir.), cert. denied, 389 U.S. 829 (1967). In *Carboline Co.* v. *Jarboe*, 454 S.W. 2d 540 (Mo. 1970), the court limited an employer's injunction against an ex-employee to protection of its head start interest, but no more (*id.* at 553, 555).

This line of authority in injunction cases is largely post-*Stiffel*, and the decisions frequently expressly rely on *Stiffel*.[43] The same principle was applied to damages relief in the Second Circuit, however, long prior to *Stiffel*. Thus, in *Schreyer* v. *Casco Prods. Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952), the parties (two manufacturers) entered into negotiations for a license during the pendency of a patent application on a steam iron. During the negotiations the plaintiff manufacturer furnished confidential blueprints and manufacturing know-how to the defendant. The court found (*id.* at 924) that a "confidential relationship" was created, which defendant breached by going ahead and making the steam iron without a license. The patent then issued, containing a disclosure of the confidential information. Nonetheless, the defendant's use of the confidential information enabled it to produce and market the steam iron at an earlier date than would have been possible by reverse-engineering the plaintiff's iron or waiting for the patent to issue. Accordingly, the court ordered an accounting of the profits resulting from the acceleration of defendant's production date for the iron, but it denied any other relief, stating that the proposed award of "damages will afford a complete and adequate remedy for any wrong suffered" (*ibid.*).[44]

The principle that relief in trade secret cases should be reasonably related to the value of the head start benefit conferred on the other party finds support, also, in the law concerning covenants not to compete. Perpetual covenants not to compete are usually improper, and their scope and duration usually must be not substantially greater than necessary to protect the legitimate interest

[43] See, *e.g.*, *Forest Labs*, *supra*, 452 F.2d at 624 n. 4; *Hampton*, *supra*, 374 F.2d at 973.

[44] Accord, *Englehard Indus., Inc.* v. *Research Instr. Corp.*, 324 F.2d 347, 353 (9th Cir. 1963) (damages based on profits from acceleration of production date).

they are designed to serve. (*Mitchel* v. *Reynolds*, 1 P. Wms. 181, 24 Eng. Rep. 347 (K.B. 1711); see *United States* v. *Addyston Pipe & Steel Co.*, 85 F. 271, 279-80 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).) Trade secret law and the law of covenants not to compete has already substantially merged in the field of employee trade secret agreements. (See generally Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 674-81, 686-87 (1960); see also Stern, *A Reexamination of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 982-986 (1974).) The same merger is appropriate (and, at the very least, the body of law is suggestive) as to the royalty duration of trade secret agreements, since the legitimate interest that enforcement of these royalty agreements serves (*i.e.*, protection of the head start value) is properly the measure of the duration of the competitive restriction that such enforcement imposes (*i.e.*, the obligation to pay a running royalty similar to that levied under a patent).

Finally, we note that the test proposed here for preemption *vel non* (based on such cases as *Northern Petrochemical* and *Schreyer*, *supra*) not only accommodates and compromises the competing state and federal interests, permitting each to operate substantially without superseding or jeopardizing the other, but the test is also readily administered.[45] Indeed, as we have shown, it is

[45] We do not believe that the proposed rule is arbitrary, although it is readily administered. We nonetheless note that the Court has on occasion formulated an arbitrary standard that is approximate in terms of finely-tuned policy-making, but that facilitates enforcement and administration of the law because of the relative ease of its application. The per se rules in antitrust law are examples of this. See *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 5 (1958); cf. *United States* v. *Philadelphia Nat'l Bank*, 374 U.S. 321, 363-66 (1963) (30% rule in merger cases). See also *Linn* v. *United Plant Guard Workers*, 383 U.S. 53, 64-65 (1966) (adoption of *N.Y. Times* standards for labor dispute libels, "by analogy, rather than under constitutional compulsion * * * to effectuate the statutory design with respect to pre-emption"); *Baldwin* v. *New York*, 399 U.S. 66 (1970) (weighing advantages of jury trial to defendant against administrative inconvenience to state, and concluding that balance at which scale tips is six-months imprisonment).

already in actual use in the state and lower federal courts, in the trade secret field. Finally, the test is not so sweeping or general as to imply unforeseeable or drastic consequences (as is so for the other resolutions proposed in this case), and it leaves the Court free to trace out the larger contours of the appropriate preemptive rules for federal intellectual property law and adjacent state tort, contract, and property law on some other occasion with a factual context and a record that may be more suited for that purpose than those presented here.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed.[46]

Respectfully submitted,

Edward S. Irons
Richard H. Stern
Irons & Sears
1801 K Street, N.W.
Washington, D.C. 20006

Attorneys for Amicus Curiae Ercon, Inc.

September 1978

[46] We believe that it is clear on this record that respondent's nineteen years of payments, amounting to some $200,000, are greatly in excess of the possible value of the head start benefit that petitioner conferred on it in 1956. If the Court agrees that this is clear, that should be the end of the case since respondent seeks no refund. If it is not clear, however, we submit that the judgment of the court of appeals should be vacated and the case remanded for a determination of that fact and for further proceedings consistent with this Court's decision.

APPENDIX

APPENDIX

U.K. Patent 707,615 (published April 21, 1954) is reproduced below.

It claims a two-piece keyholder consisting of an ornamental medallion and a resilient wire loop for holding keys, which is detachable from the medallion by pressing together the free ends of the resilient loop.

[SEAL] 707,615

PATENT SPECIFICATION

Date of filing Complete Specfiication: Dec. 17, 1952

Application Date: Jan. 22, 1952 No. 1806/52

Complete Specification Published: April 21, 1954

Index at Acceptance:—Class 44, G2

COMPLETE SPECIFICATION

Improvements in or relating to Key Holders

1. ERNEST JOHN DROWN, a British Subject of Graham Products Limited, of 8 Key Hill Drive, Birmingham 18, do hereby declare the invention, for which I pray that a patent may be granted to me, and the method by which it is to be performed, to be particularly described in and by the following statement:—

This invention relates to key holders and has for an object the provision of a simple and novel key holder enabling keys to be readily attached to and removed from the holder.

A key holder comprises according to this invention a strip of resilient metal bent to form an open loop adapted to receive keys, the strip having end parts projecting outwardly from the loop and an open ended box. The box is for closing the open loop and is adapted to receive the end parts of the strip when those end parts are pressed together against the resilience of the strip with the free extremities of the end parts protruding from the box. These extremities have sideways projections arranged to prevent accidental removal thereof back through the box by engagement against the end of the box. When it is desired to remove the box, it is only necessary to press together the protruding extremities until these clear the end of the box and then draw those extremities through the box. A similar procedure is followed when closing the loop.

The invention will be more readily understood by way of example from the following description of the key holder, reference being made to the accompanying drawing in which

Figure 1 shows the two parts of the key holder in separated condition,

Figure 2 shows the assembled key holder and

Figure 3 is a section on the line 3—3 of Figure 2.

Referring to the drawing, the key holder comprises a length of stout spring steel wire or strip 12 and a box 13. The strip 12 is bent into the form of a loop 12*a* open at 14 and two divergent straight end parts 12*b*. End parts 12*b* are bent out sideways slightly to form sideways projections 12*c* and then bent back on themselves at 12*d* so that the extremities 12*e* have smooth surfaces.

The box 13 is formed by a flat plate 15 to one surface of which is welded the bent over ends 16 of a C-shaped member 17. The substantially rectilinear box thus formed between plate 15 and member 17 has opposite open ends 18 and its sides 19 are parallel and slightly smaller than the length of end parts 12*b* between the ring 12*a* and sideway projections 12*c*.

By pressing end parts 12*b* together against the natural resilience of the spring metal the extremities thereof can be inserted within the box 13 and pressed inwards until the sideways projections 12*c* emerge from the box and spring sideways thereby preventing subsequent accidental removal of the end parts from the box. In this position,

end parts 12*b* are held towards each other against their natural resilience by the box 13 and thereby ensure that they cannot accidentally slip out of the box. To add or remove a key threaded on the ring 12*a*, it is only necessary to press together the extremities protruding from box 13 until they clear the sides of the box and then pull the loop away from the box. After addition or removal of the key, the end parts 12*b* are restored to the box 13 as before.

Plate 15 on the side distant from member 17 preferably is ornamentend, for example by making it in the form of a badge or the like.

It will be seen that the invention provides a novel key holder providing easy removal and addition of keys while ensuring secure locking of the keys against accidental removal from the holder.

What I claim is:—

1. A key holder comprising a strip of resilient metal bent to form an open loop adapted to receive keys, the strip having end parts projecting outwardly from the loop, and an open-ended box for closing the open loop adapted to receive the end parts of the strip when pressed together against the resilience of the strip with the free extremities of the end parts protruding from the box, which extremities have sideways projections arranged to prevent accidental removal thereof back through the box by engagement against the end of the box.

2. A key holder according to Claim 1 in which the extremities are bent sideways to form the projections.

3. A key holder according to Claim 2 in which the extremities after bing bent sideways are each bent back on itself.

4. A key holder according to any of the preceding claims in which the end parts in their normal state are divergent and the sides of the box are parallel so that when received within the box, the end parts are pressed together against the resilience of the strip.

5. A key holder according to any of the preceding claims in which the box carries a badge or like ornament.

6. A key holder substantially as described with reference to the accompanying drawing.

A. A. THORNTON & CO.
Chartered Patent Agents
Napier House, 24-27 High Holborn
London, W.C.I.

PROVISIONAL SPECIFICATION

Improvents in or relating to Key Holders

I, ERNEST JOHN DROWN, of Graham Products, Ltd., 8 Key Hill Drive, Birmingham 18, do hereby declare this invention to be described in the following statement:—

Special (novelty) key ring, consisting of two parts. Part 1: The actual ring part, the ends of which are straight, sprung, capable of being pressed together, so that they run parallel to each other, the ends of each being widened to act as stoppers when inserted in part 2. The springiness is achieved through the key ring part which can be of any shape. Part 2: A box opened at two ends of a size suitable to take and compress the two ends of part 1, at the same time being narrow enough to prevent ends from slipping out. The box may be plain or ornamented, i.e. badges, crests or other ornaments may be attached.

E. J. Drown

707,615 COMPLETE SPECIFICATION
1 SHEET

This drawing is a reproduction of the Original on a reduced scale.

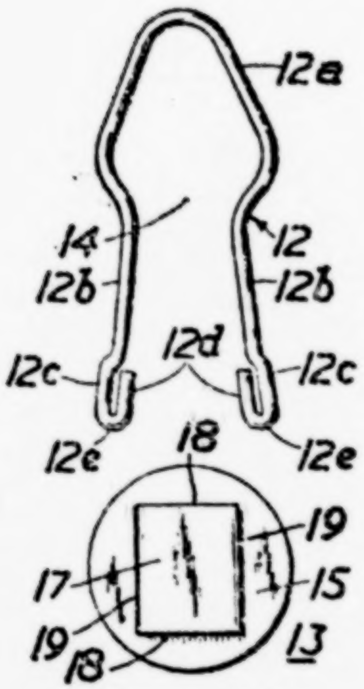

FIG. 1.

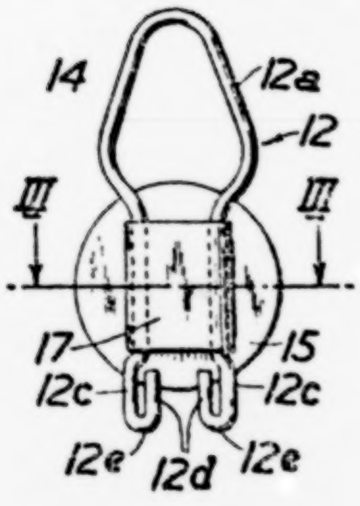

FIG. 2.

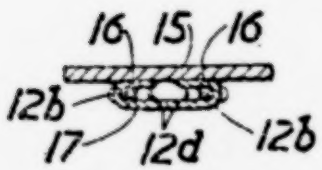

FIG. 3.

CERTIFICATE OF SERVICE

Edward S. Irons, a member of the Bar of this Court, hereby enters his appearance in this case as attorney for Ercon, Inc., *amicus curiae*, and certifies that the foregoing papers were today served by air mail, postage prepaid, on counsel for petitioner, and by hand on counsel for respondent, three copies to each of:

Mr. C. Lee Cook, Jr.
Chadwell, Kayser, Ruggles, McGee
& Hastings, Ltd.
8500 Sears Tower
233 South Wacker Drive
Chicago, Ill. 60606
Counsel for Petitioner

Mr. Erwin C. Griswold
Jones, Day, Reaves & Pogue
1100 Connecticut Ave., N.W.
Washington, D.C. 20036
Counsel for Respondent

Edward S. Irons
EDWARD S. IRONS

September 20, 1978

In The

Supreme Court of the United States

October Term 1978

No. 77-1413

Jane Aronson,

Petitioner,

v.

Quick Point Pencil Company,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

MOTION FOR LEAVE TO FILE BRIEF OF AMICUS CURIAE

Ned L. Conley
Butler, Binion, Rice, Cook & Knapp
1100 Esperson Building
Houston, Texas 77002

Attorneys for Amicus Curiae The Patent, Trademark and Copyright Section of the State Bar of Texas

FIDELITY PRINTING COMPANY, HOUSTON

IN THE

Supreme Court of the United States

OCTOBER TERM 1978

No. 77-1413

JANE ARONSON,

Petitioner,

v.

QUICK POINT PENCIL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF OF AMICUS CURIAE

Now comes the Patent, Trademark and Copyright Section of the State Bar of Texas and files this its motion for leave to file a brief in this matter as Amicus Curiae.

The Amicus consists of approximately 275 Texas lawyers whose practice is predominantly or entirely in the intellectual property field, and virtually all of whom deal with the problems of licensing patents, know-how and trade secrets. Nearly all of the lawyers in Texas who practice predominantly in the intellectual property field are members of the Section. The practice of these lawyers includes preparation and negotiation of patent licenses, know-how

transfers and trade secret assignments, as well as representation of each side in disputes arising out of such agreements. Some members are sole practitioners, some are members of small to quite large law firms, and some are house counsel for medium to large corporations. Clients represented by the members include individuals, small businesses and large corporations. Because of the nature of their practice the members have become knowledgeable concerning the business and economic realities of dealing with the transfer of intellectual property.

The Amicus has no interest in the outcome of this particular case, but does have a great interest in the continuing viability of state laws under which parties may contract with respect to rights to intellectual property, so long as there is no conflict with the Patent Laws or the Federal Antitrust Law. We are concerned with the maintenance of perhaps thousands of commercial transactions entered into in good faith by parties who knew the benefits and costs involved, and bargained for what they received, with the expectation by all concerned that royalties provided for by the agreements would be paid in accordance with the agreed-upon terms.

The Question presented is much broader than the specific fact situation which is before the Court. The parties themselves will, of course, direct their briefs to this specific fact situation, but they may fail to give adequate consideration to the broader aspects of the Question presented to the Court for consideration.

Thus the particular case before the Court involves a fact situation including a written contract, in which a patent application was involved, the contract specifically providing that royalties would be paid at a reduced rate if no patent issued. The article which was licensed under the agreement was completely disclosed by the marketing of

the article, and the Court of Appeals questioned the existence of a trade secret. There was no finding that coercion was a factor.

The Question presented for consideration, however, is much broader than this, encompassing situations in which no patent application was filed, in which the subject matter was not secret at the time the contract was entered into, and in which there was no reduction in royalty provided for upon abandonment of attempts to patent. It is apparent that a decision on such a broadly stated Question may have far reaching implications that cannot now be fully anticipated.

In its brief Amicus wishes to treat these more general aspects of the Question presented so that the Court may be made fully aware of the possible implications of any decision which it may reach.

Respectfully submitted,

....

NED L. CONLEY

BUTLER, BINION, RICE, COOK & KNAPP
1100 Esperson Building
Houston, Texas 77002
(713) 237-3195

Attorney for the Patent, Trademark and Copyright Section of the State Bar of Texas

CERTIFICATE OF SERVICE

Ned L. Conley, a member of the Bar of this Court, hereby enters his appearance in this case as attorney for the Patent, Trademark and Copyright Section of the State Bar of Texas, Amicus Curiae, and certifies that the foregoing Motion was served by mailing, Air Mail, Postage Prepaid, three copies to each of:

Mr. C. Lee Cook, Jr.
Chadwell, Kayser, Ruggles,
McGee & Hastings, Ltd.
8500 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606

Mr. Erwin N. Griswold
Jones, Day, Reavis & Pogue
1100 Connecticut Avenue, N.W.
Washington, D.C. 20036

Mr. Thomas E. Wack
Armstrong, Teasdale, Carmer & Vaughan
Suite 1950
Railway Exchange Building
611 Olive Street
St. Louis, Missouri 63101

on this the .... day of August, 1978.

....

IN THE

Supreme Court of the United States

OCTOBER TERM 1978

No. 77-1413

JANE ARONSON,

Petitioner,

v.

QUICK POINT PENCIL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

BRIEF ON BEHALF OF THE PATENT, TRADEMARK AND COPYRIGHT SECTION OF THE STATE BAR OF TEXAS AS AMICUS CURIAE

NED L. CONLEY
BUTLER, BINION, RICE, COOK & KNAPP
1100 Esperson Building
Houston, Texas 77002

Attorneys for Amicus Curiae The Patent, Trademark and Copyright Section of the State Bar of Texas

FIDELITY PRINTING COMPANY, HOUSTON

TABLE OF CONTENTS

TABLE OF AUTHORITIES

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BRIEF ON BEHALF OF THE PATENT, TRADEMARK AND COPYRIGHT SECTION OF THE STATE BAR OF TEXAS AS AMICUS CURIAE

I.

THE NATURE OF THE AMICUS

This brief amicus curiae is submitted by the Patent, Trademark and Copyright Section of the State Bar of Texas under Rule 42(2) of this Court.

The Patent, Trademark and Copyright Section of the State Bar of Texas (the "Section") consists of approximately 275 Texas lawyers whose practice is predominantly or entirely in the intellectual property field, and virtually all

of whom deal with the problems of licensing patents, know-how and trade secrets. Nearly all of the lawyers in Texas who practice predominantly in the intellectual property field are members of the Section. The practice of these lawyers includes preparation and negotiation of patent licenses, know-how transfers and trade secret licenses and assignments, as well as representation of either side in disputes arising out of such agreements. Some members of the Section are sole practitioners, some are members of small to quite large law firms, and some are house counsel for medium to large corporations. Clients represented by the members of the Section include individuals, small businesses and large corporations.

Because of the nature of their practice, the members of the Section have become knowledgeable concerning the business and economic realities of dealing with the transfer of intellectual property.

II.

THE INTEREST OF THE AMICUS

The Amicus has no interest in the outcome of this case, but does have a great interest in the continuing viability of state laws under which parties may contract with respect to rights to intellectual property, so long as there is no conflict with the patent laws or the federal antitrust law. The Amicus is concerned with the maintenance of perhaps thousands of commercial transactions entered into in good faith by parties who knew the benefits and costs involved, and bargained for what they received, with the expectation by all concerned that royalties provided for by the agreements would be paid in accordance with the agreed-upon terms.

The Question presented is much broader than necessary for determination of the correctness of the decision of the

Court of Appeals under the circumstances of this particular case. Instead, the Court should consider only the narrow issue raised by the decision of the Court of Appeals. That, of course, is the primary function of this Court. See *Hines* v. *Davidowitz*, 312 U.S. 52, 67 (1941).

The Court of Appeals clearly limited *its* decision to the facts which the Court found to exist in the case before it, i.e.:

1) There was a written contract;
2) A patent application had been filed on the discovery;
3) The contract specifically provided that royalties would be paid, albeit at a reduced rate, even if no patent issued;
4) The contract was not for disclosure of the idea, but for the exclusive right to manufacture[1];
5) The discovery was completely disclosed by the marketing of the goods; and
6) The prospective patent protection was not used to coerce an agreement to pay a royalty if no patent was granted.[2]

This Court's consideration of the Question should likewise be focused on this fact situation. An affirmative answer to the Question as broadly as stated would have far-reaching implications that cannot now be fully anticipated, although it would certainly destroy thousands of business relationships involving billions of dollars worth of investments. Whatever the effect on the specific contract between the parties to this case, the Question must be answered in the negative.

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[1] The validity of this conclusion by the Court of Appeals is questionable because of the lack of such a fact finding by the District Court.

[2] Presumed to be true, in the absence of any fact finding of coercion.

III.

ARGUMENT

A. The Nature of the Case

The subject matter under consideration consists of rights in discoveries which presumably do not meet the exacting standards of the patent laws, and which, upon being used, are not protected by the trade secret laws of the States, but which nevertheless have value, and for which there is a market.

The particular contract law with which we are concerned is one which would enforce a contract requiring the continued payment of royalties at a reduced rate after the abandonment of a patent application on the discovery which was the subject of the contract, and after the public gained full knowledge of the discovery, such knowledge having been gained from the sales of the product embodying the discovery, and such sales having been the purpose of the contract.

The Question presented is broader, encompassing situations in which no patent application was filed, in which the subject matter was not secret at the time of the contract, and in which there was no reduction in royalty provided for upon abandonment of attempts to patent.

The case at bar is not one in which the contracting parties sought to restrict the right *of the public* to have access to the discovery; on the contrary, the purpose of the contract was to allow a product embodying the discovery to be marketed, and anyone was free to copy the marketed, unpatented product. See *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Nor can it be presumed upon the present record that this is a case in which the prospective patent grant was used to coerce, i.e. by a tying arrangement, since there is no finding that rights would not have been granted under the pending patent application except in conjunction with rights to something not covered by the patent application.

This case does not involve any attempted monopolization of any market, nor did any monopoly result from the contract. Rather, extensive competition resulted from the marketing contemplated by the contract.

This is a case in which the parties presumably bargained at arm's length, both being fully aware of the possibility that no patent would issue on the discovery and making provision for that eventuality, and both being fully aware that the necessary disclosure of the discovery to the public in the marketing of the product could, and probably would, result in competitive imitations which, in the absence of a patent, they would be unable to prevent. The licensee was willing to pay under those conditions, and the licensor was willing to accept the agreed-upon payments.

The issue to be decided here is whether the law of the State of Missouri would come into conflict with the operation of the Patent Laws of the United States if that State law were used to enforce the specific terms of the agreement between the parties. In determining this it is necessary to ascertain whether the Missouri law, so applied, would stand as an obstacle to the accomplishment and execution of the objectives of the patent laws, i.e., encouraging invention, and disclosure of innovations for use by the public. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974).

Other considerations which may affect some fact situations within the broad scope of the Question presented are:

1) Whether the State law in question would withdraw something from the public domain, creating a monopoly in something which the public had a free right to use;

2) The desirability of maintenance of standards of commercial ethics;

3) Whether a patent right is used in a coercive manner;

4) Whether the patent monopoly is extended beyond the bounds provided by law; and

5) Whether the subject matter sought to be protected by state law is or ever was, in fact, a secret.

The case at bar does not involve all of these considerations. Nothing was withdrawn from the public domain. No monopoly is asserted, and members of the public are free to, and actually do, copy the subject keyholder without any restraint whatsover by Aronson. Aronson asserts only a right to recover the specific amounts contracted for — and only from the party who agreed to pay those amounts. That is the only person who is affected by this agreement.

The maintenance of standards of commercial ethics is at issue in this case. Parties to such agreements as in this case presumably contracted in good faith. A "yes" answer to the Question could affect hundreds, and perhaps many thousands of existing contracts.

The record does not reflect that Aronson used the possibility of a patent grant to coerce Quick Point into signing an agreement which would provide for continued royalty payments after the keyholder design became known to the public.

There is no assertion by Aronson of a monopoly of any kind, and, since no patent ever issued, no attempt to extend control of a patented product beyond the 17 year patent term.

The majority opinion in the Court of Appeals questioned whether the keyholder could be considered a trade secret, but its decision apparently was not dependent upon this. In any event, the subject keyholder was not in the public domain at the time of the agreement. Furthermore, the Question is one of whether there is conflict between the state contract law and the patent law, and the definition of a trade secret under state law is not involved.

B. There is no Conflict with the Patent Laws

This Court concluded in *Goldstein* v. *California,* 412 U.S. 546 (1973), that "the States have not relinquished all power to grant to authors 'the exclusive Right to their respective Writings'" (412 U.S. at 560), and in *Kewanee, supra,* that the States retained some measure of regulatory power over the "Discoveries" which are the subject of Article I, Section 8, Clause 8 of the Constitution.

As the Court stated in *Goldstein,* 412 U.S. at 562:

> "While the area in which Congress *may* act is broad, the enabling provision of Clause 8 does not require that Congress act in regard to all categories of materials which meet the constitutional definitions. Rather, whether any specific category of "Writings" is to be brought within the purview of the federal statutory scheme is left to the discretion of the Congress." (Emphasis by the Court)

We are concerned here with one category of "Discoveries" upon which Congress has not acted. Congress "has left the area unattended, and no reason exists why the State should not be free to act" (412 U.S. at 570).

This Court, in *Kewanee*, determined that Ohio's law of trade secrets is not pre-empted by the patent laws of the United States, holding that the States may exercise regulatory power over discoveries so long as such regulation does not conflict with the operation of the laws in this area passed by Congress (416 U.S. at 324). The Court is now faced with the question of whether the States' laws of contracts by which they may exercise regulatory power over discoveries conflict with the operation of the laws in this area passed by Congress.

As in *Kewanee*, the Court must now consider whether such State laws stand "as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" (416 U.S. at 324, quoting from *Hines* v. *Davidowitz, supra*, 312 U.S. at 67), as expressed in the patent laws. These objectives were stated to be the encouragement of innovation, and the disclosure of the innovations to the public (416 U.S. at 325). The Court further reiterated: ". . . that which is in the public domain cannot be removed therefrom by action of the States" (416 U.S. at 325).

The Court concluded in *Kewanee* that the patent policy of encouraging invention is not disturbed by the existence of another incentive to invent, i.e. trade secret law. The Missouri contract law which is questioned in this case is still another incentive to invent, so that in this respect there can be no conflict with the patent law.

The hope of a contract such as that entered into by Aronson and Quick Point is the incentive that encourages untold numbers of individuals to develop their ideas and improvements. A high proportion of manufacturing businesses have procedures established for the purpose of receiving disclosures of such innovations. Normally the businesses protect themselves against claims of misappropriation by suitable agreements with the inventors, and often such businesses will refuse to consider a disclosure unless a patent application is filed. Although only a small percentage of submitted innovations ever becomes the subject of a licensing agreement providing for the payment of royalties to the inventor, the success of a few, like Aronson, fires the enthusiasm of the inventors.

In most cases such licensing agreements are entered into before a final decision by the Patent and Trademark Office on the patentability of the invention, and often before any patent application is filed, so that normally the parties do not know, at the time of negotiating the agreement, whether the invention will ever be patented. Whenever the invention is in a product which is to be marketed, any secrecy which may have existed ends as soon as the product is put on the market. The parties to the agreement recognize, however, that value is received by the disclosure, and that even if no patent is ever granted, the licensee has benefitted from being first on the market with this invention. Such benefit can, and often does, continue even after competitors have copied the invention.

Of course, at the time of negotiating the contract the parties cannot know whether the product will be a success or a failure, or how much competition will result. Thus the value of the invention to the licensee cannot be predicted. The logical, and common, answer is to base compensation to the inventor on success of the invention, by providing a royalty on sales. By this means, the licensor's compensation is commensurate with the benefit received by the licensee. Initial lump sum payments or short-term royalties can seldom accomplish this. Certainly Quick Point would never have agreed in advance to pay Aronson the $200,000.00 plus she eventually received.

It is the anticipation of this kind of royalty which brings the inventors back time after time.

It might be argued that sufficient incentive is provided by providing for royalty only during the pendency of a patent application where no patent results. But many times no patent application is ever filed. Even if an application is filed, a royalty rate set high enough to compensate the inventor and continuing only during the pendency of the application[3] may often be too great a burden on the product.

The encouragement to innovate goes beyond the individual who hopes to reap rewards from his efforts. An important element of income for many businesses is in return for licensing know-how, the specialized knowledge of how to economically and effectively perform a given task. Such know-how is seldom patentable, and often consists entirely of a knowledgeable selection of bits and pieces of known technology, technology which is clearly in the public domain, so that the only "secret" involved is in the identification of the particular parts of known technology which are included.

The existence of the right to contract for the payment of royalties in return for the right to use this unpatented, marginally secret "know-how" has resulted in the growth of large research organizations, a major part of whose effort is devoted to developing just such know-how, with patentable inventions often constituting only a fringe benefit. The enormous fast-food franchising industry in this country utilizes such know-how licensing as a major factor.

Thus it cannot be questioned that contract laws permitting enforcement of agreements such as the one at issue here do provide another form of incentive to invention,

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[3] Currently patent applications pend in the Patent and Trademark Office an average of 19.8 months.

so that "in this respect the two systems are not and never would be in conflict" (*Kewanee, supra,* 416 U.S. at 327). Maybe Aronson would have sold for a pittance anyway, and maybe some others would also. But many ideas would die aborning, for lack of sufficient incentive. And in the world of sophisticated businessmen, the inventor of a discovery would not likely share his secret with a manufacturer who could not be bound to pay a license fee. The result would be to hoard rather than disseminate knowledge.

Nor is the policy that matter once in the public domain must remain in the public domain incompatible with the enforcement of such contracts. The Question assumes that the subject matter of the contract is, or becomes, in the public domain. The contract in question does nothing to limit the right of the public to use such subject matter; in fact, the publication of the subject matter was the purpose and the result of the contract.

The objective of public disclosure is not hindered in any way by enforcing the contract, for the Question assumes that public disclosure has occurred. Certainly the abolition of this form of State regulation of innovation cannot result in increased disclosure to the public of that which has already been disclosed.

Thus the Missouri contract law in question does not conflict with the purposes and objectives of Congress, as analyzed by this Court in *Kewanee*. On the contrary, it supplements the patent laws, providing additional incentive for innovation in areas not covered by the patent laws, an incentive which is not possible under either the patent laws or trade secret laws, and giving to the public discoveries which otherwise would never see the light of day.

The remarks of this Court in *Kewanee* on the desirability of trade secret laws are equally applicable to the Missouri

contract law in question. The patent laws and contract laws have coexisted in this country since the first patent law was enacted in 1790. "Each has its particular role to play, and the operation of one does not take away from the need for the other" (461 U.S. at 332). This contract law "permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it." (461 U.S. at 332). Until Congress takes affirmative action to the contrary, States should be allowed to continue this form of regulation of discoveries.

C. The State Contract Law is not Barred by Previous Court Decisions

Contrary to the position of the Court of Appeals, the decision in *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), does not support its conclusion. Totally different considerations governed the result there. That was a case where the licensor relied upon the statutory patent monopoly, maintaining that monopoly and being compensated for the use of the invention throughout the life of the patent. The patentee there elected, and took advantage of the benefits of, the patent laws, thereby establishing that the subject matter of his licensing agreements was within the area upon which Congress had acted. The Court expressly held that the rule applied there was not applicable to unpatented goods:

> "The sale or lease of *unpatented* machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations" (379 U.S. at 102, emphasis by the Court).

Furthermore, the Court's decision in *Brulotte* was not based on pre-emption at all, but upon misuse, i.e., the illegal extension of the patent monopoly. It was the use of the patent's leverage to project royalty payments beyond

the life of the patent which the Court there found analogous to a tying arrangement. In the case at bar, no patent ever existed to provide such leverage.

This Court's decision in *Sears* and *Compco, supra,* also fail to provide support for the conclusion reached by the Court of Appeals. In *Sears* and *Compco,* as in *Kewanee,* the Court looked to see whether there was a conflict between the state unfair competition law and the objectives of the patent laws, and held that such state laws could not be used to create a monopoly beyond that provided by the patent laws, as by providing perpetual protection of an unpatentable design. In both of these cases there was an effort to create a monopoly in the particular designs involved. Here, no monopoly is sought, but only agreed-upon compensation. In *Sears* and *Compco* an effort was being made to prevent use of the designs by others, whereas no such effort exists in the present case, and the design is being made by others.

It was the prohibition of copying by others which the Court struck down. Here there is free copying by others; the only restraint, if a royalty can be called that, is applied to the licensee who agreed to that restraint in return for the head start he received over competition.

The Court of Appeals also sought support in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969). However, the Court there expressly refused to consider "whether, and to what extent, the States may protect the owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties" (395 U.S. at 625, emphasis by the Court.) *Lear* was concerned primarily with the question of whether a patent licensee could be estopped, under State law, to challenge the validity of the licensed patent. The holding was that Lear, who had questioned patentability and stopped paying royalties before the patent was issued, must be permitted to avoid payment of post-patent

issue royalties if Lear could prove patent invalidity. The Lear contract had expressly provided for termination of royalty payments upon a determination of invalidity.

In the case at bar, there is no estoppel question and no contract provision allowing termination of royalty payments on any basis. The *Lear* case does not treat a situation where the agreement was to pay royalties even if no patent ever issued.

The Court of Appeals stated that under the rule announced in *Lear* if Aronson had obtained a patent on her application, and that patent were later determined to be invalid, Quick Point's liability would have terminated "in spite of the contract." Apparently the Court of Appeals' reasoning was that greater benefits should not be obtained by Aronson when no patent was ever obtained. But the benefits are not greater, only different. Under the facts of the case at bar, Aronson received a reduced royalty, on lesser sales, because of competition. If a patent had issued, before the adjudication of invalidity Aronson would have benefitted from the higher royalty and from the increased sales, and quite likely increased price, afforded by the patent protection against competition.

Furthermore, the termination of royalties would not have been "in spite of the contract", where an issued patent was found invalid. Nothing in the contract at issue required payment of royalties after the invalidation of the patent.

There is nothing in *Lear* which mandated pre-emption in this case. As we have noted, the question here was left open in *Lear*.

Thus, the previous decisions by this Court construing the scope of the patent laws do not provide a basis for the decision reached by the Court of Appeals. Such decisions were based on the finding of a conflict with the

objectives of the patent laws or a use of the patent leverage to obtain a degree of control over something not patented. As we have shown, neither situation exists in the case at bar, nor necessarily results from the facts in the Question presented. In fact, State laws which enforce contracts within the scope of the Question provide a further incentive for innovation. Affirmance of the Court of Appeals decision would eliminate this important incentive.

IV.

CONCLUSION

For the reasons stated, the decision of the Court of Appeals should be reversed, and the Question presented should be answered in the negative. The Court's review should be pointed toward the specific facts of this case, and should not affect other fact situations within the broad scope of the Question. In any event, the Court should be careful not to retroactively nullify contracts entered into prior to the Court's decision, thereby providing windfalls to the licensees under such contracts.

Respectfully submitted,

Ned L. Conley
Butler, Binion, Rice, Cook & Knapp
1100 Esperson Building
Houston, Texas 77002

Attorneys for Amicus Curiae, The Patent, Trademark and Copyright Section of the State Bar of Texas

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Brief was served by mailing, Air Mail, Postage Prepaid, three copies to each of:

Mr. C. Lee Cook, Jr.
Chadwell, Kayser, Ruggles
McGee & Hastings, Ltd.
8500 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606

Mr. Erwin N. Griswold
Jones, Day, Reavis & Pogue
1100 Connecticut Avenue, N.W.
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on this the .... day of August, 1978.

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